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# RESEARCH INSIGHTS

## "CLIMATE RISKS AND DEBT STRUCTURE"

### AUTHORS

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### EXECUTIVE SUMMARY

This paper examines the impact of climate risks on the debt structure of a sample of U.S. firms from 2002 through 2020. Climate risks—mainly physical, regulatory, and transition risks—are associated with a concentrated debt structure for the affected firms. However, when climate risks propagate through the channels of expected bankruptcy costs and sustainability, they are associated with a more diversified debt structure.

Additionally, climate risks asymmetrically impact the relationship between access to finance and debt structure. Results from a quasi-natural experiment reaffirm the impact of climate risks on debt structure.

### KEYWORDS

- Corporate debt
- Debt structure
- Climate change
- Corporate social responsibility

### RESEARCH RELEVANCE

- Firms with greater capital assets that have alternative uses tend to have more diversified debt structures.
- Climate risks distort the relationship between credit ratings and debt structure. Among top-rated firms, climate risks are associated with greater debt diversification, whereas mid-rated firms show the opposite trend.
- Sustainability initiatives, such as corporate social responsibility (CSR) activities and strong environmental, social, and governance (ESG) ratings, help climate risks-affected firms to diversify their debt structure.
- The findings offer actionable insights for firms seeking to manage the financial implications of their climate risk exposures more effectively.

### BIBLIOGRAPHIC INFORMATION

Francis, B. B., Hasan, I., Jiang, C., Sharma, Z., & Zhu, Y. (2025). Climate Risks and Debt Structure. *British Accounting Review*. Advance online publication. <https://doi.org/10.1016/j.bar.2025.101614>

*"This study finds that climate risks, primarily physical, regulatory, and transition risks, influence firms' debt structures and the effects operate through three main channels: bankruptcy costs, access to finance, and corporate sustainability."*

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