Institute for Sustainable Finance

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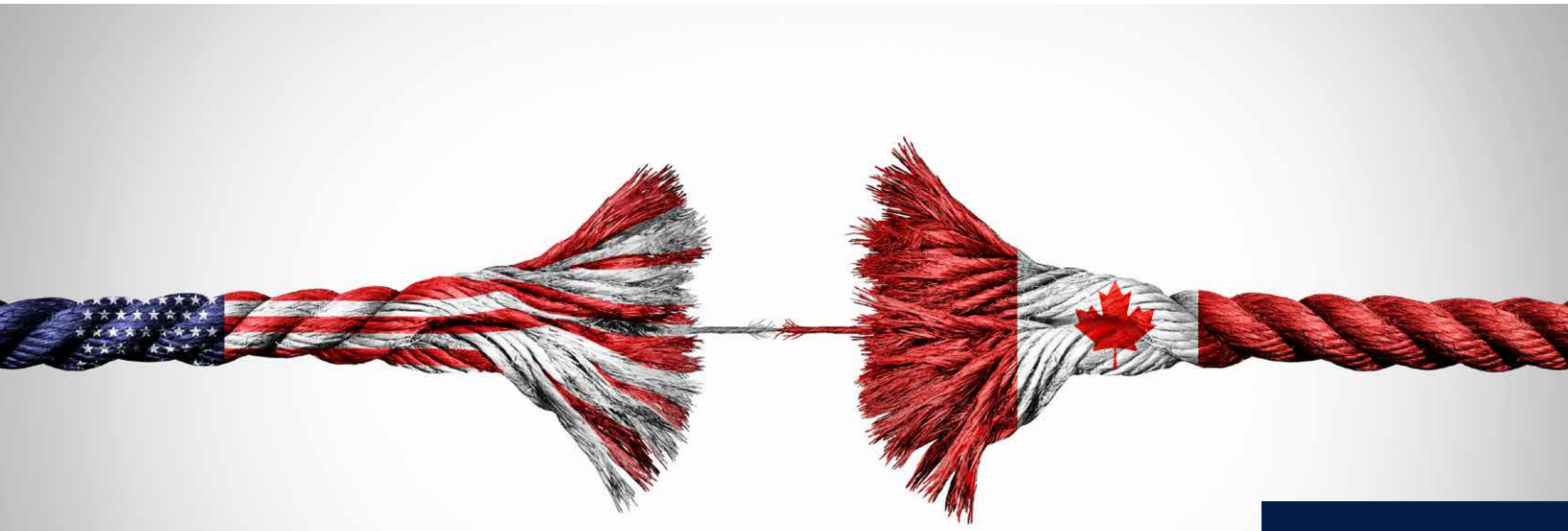
DISCUSSION PAPER

From U.S. Dependence to Global Capital: The Role of Climate Disclosure

How reporting firms benefitted from foreign investment shifts following the Liberation Day tariff shock

June 2026



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EXECUTIVE SUMMARY

Canada has long benefited from deep economic integration with the United States, but recent tariff escalation and sovereignty-threatening rhetoric have made that dependence look more like a strategic vulnerability. If Canada wants to diversify its economic relationships as stated by Prime Minister Mark Carney, it must also make its capital markets more attractive to global institutional investors.

The largest capital providers outside of the U.S. tend to operate in jurisdictions where disclosure of climate-related risks and opportunities is increasingly mandated. For example, European investors may be obligated to report under the Sustainable Finance Disclosure Regulation (SFDR) and the EU taxonomy regulation, both of which affect which firms are considered for investment. Meanwhile the U.K., Japan, Australia, Singapore, and Hong Kong have all adopted or are moving towards adopting the International Sustainability Standards Board's (ISSB) sustainability disclosure standards. These regulatory developments have been primarily advocated by institutional investors across the globe that have longed for better sustainability data.

If Canada wants to compete for capital, its disclosure regime must ensure that Canadian data is comparable. Unlike the jurisdictions discussed above, Canada's climate-disclosure framework is fragmented and mostly voluntary. The federal government has proposed to work with the provinces to restart the process by the Canadian Securities Administrators to establish mandatory reporting for Canadian public companies. There is a current debate about the costs and benefits to Canadian markets, which this study contributes to.

We examine whether corporate climate disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) are associated with higher foreign institutional ownership among Canadian public companies. To test this, we look at capital flows following the Trump Administration's Liberation Day announcement on April 2, 2025 of sweeping global tariffs. Liberation Day provides a useful shock because it created an external change in investor incentives, allowing us to test whether climate-reporting firms attracted global capital during a capital reallocation event.

Using a panel of 206 Canadian public companies over 10 quarters from Q4 2023 through Q1 2026, the analysis compares foreign institutional stock holdings in firms with TCFD-aligned disclosure to those without such disclosure before and after the shock.

The main finding is that, after the Liberation Day shock, foreign institutional holdings increased by 24.6% more for TCFD-aligned firms than for otherwise comparable non-TCFD-aligned firms, relative to their pre-shock baselines. Nearly all of the difference was accounted for by investors from climate-concerned Europe. Since the sample of Canadian public firms is small, we conduct two robustness tests to eliminate other potential explanations, which supported the validity of our findings.

The findings suggest that TCFD-aligned climate disclosure may have helped Canadian firms attract foreign institutional capital, particularly from important European markets, during a period of heightened geopolitical and trade uncertainty. While not conclusive on its own, the study provides additional evidence that strengthening Canada's sustainability disclosure rules could help support Canada's efforts to diversify global investment relationships at a time when markets are seeing additional risk in the United States.

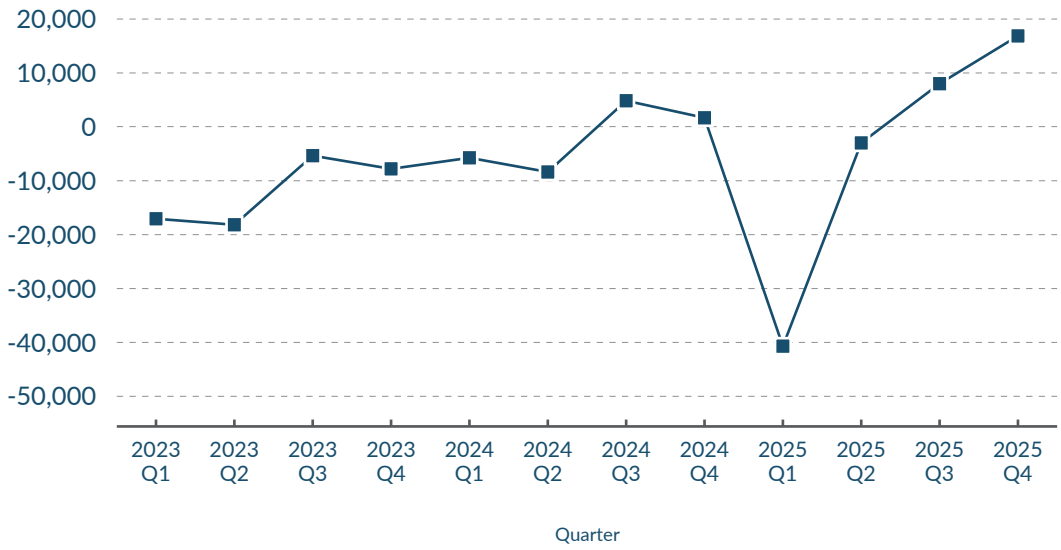
INTRODUCTION

Canada's economic relationship with the United States has traditionally been treated as one of the country's strategic advantages. Proximity to the world's largest economy has supported trade integration, investment flows, supply-chain co-ordination, and capital market integration. Recent political developments, however, have complicated that assumption. Tariff escalation and repeated sovereignty-threatening rhetoric toward Canada have forced policymakers and investors to reconsider the risks associated with U.S.-linked dependencies.

For Canada, the policy implication is clear: reducing strategic dependence on the United States requires not only trade diversification but also making Canadian capital markets more attractive to global investors. This challenge is especially important given Canada's recent capital-flow dynamics. According to Statistics Canada, foreign purchases and sales of Canadian equities and investment funds show that Canadian firms have generally struggled to attract foreign portfolio inflows, but that a spike occurred after "Liberation Day", the announcement of sweeping global tariffs by President Donald Trump on April 2, 2025. While our study focuses on portfolio flows, it is also interesting to note that foreign direct investment seems to follow a similar trend. According to RBC, between 2015 and 2024, two dollars of Canadian direct investment flowed abroad for every one dollar of inward foreign direct investment, contributing to more than $1 trillion in net investment leaving Canada over that period. In 2025, this trend shifted, with Canada recording a net inward investment for the first time in a decade (RBC, 2026).

FIGURE 1.

Net foreign purchases of Canadian equity and investment fund shares



Source: Statistics Canada, Table 36-10-0028-01

The timing of these inflows is consistent with the possibility that Canada benefited from capital rotating away from the United States. President Donald Trump's economic and foreign policies may have diminished global willingness to hold U.S.-linked assets. For example, a 2025 Morningstar survey showed that 40% of global asset owners are reducing or plan to reduce exposure to the U.S. (Morningstar, 2025). This creates a strategic opportunity: if Canadian firms can align with the expectations and values of global investors, they may be able to attract global capital that is diversifying away from the United States.

Sustainability disclosure is increasingly central to that opportunity. Global capital allocation is being shaped by investors' demand for comparable, decision-useful climate information. Europe has moved furthest in this direction through the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), while many other jurisdictions are moving toward the adoption or use of International Sustainability Standards Board (ISSB) sustainability disclosure standards. An analysis by Finance Montreal (forthcoming) shows that 14 of Canada's top 15 non-U.S. trading partners have in place or will soon have climate reporting regulations that are ISSB-aligned. For Canadian firms seeking to attract global capital, climate disclosure may therefore function not only as a compliance tool but also as a means to align with the values and expectations of global capital providers.

Canada's own climate disclosure framework is fragmented and mostly voluntary. There is a current debate over the costs and benefits for Canadian capital markets of Canada resuming its effort under the Canadian Securities Administrators to mandate sustainability disclosures, which has been paused since April 23, 2025 (CSA, 2025).

To shed light on these questions, this study investigates whether climate disclosure, defined as firms that publish sustainability reports that reference the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) can help Canadian firms attract foreign institutional capital, defined as institutional portfolio holdings by investors domiciled outside the U.S. and Canada. This study uses an event-based difference-in-differences design to examine whether Canadian firms with TCFD-aligned disclosures experienced a larger increase in non-U.S. foreign institutional holdings following the Liberation Day shock than otherwise comparable firms without TCFD-aligned disclosures.

Liberation Day is a useful external shock for this study because it provides an external market event that prompted investors to reassess U.S. exposure, allowing us to assess whether climate-reporting has explanatory power in any differential impact to foreign holdings.

Our study finds that following the shock, foreign institutional holdings in TCFD-aligned firms were 24.6% higher than they would have been had they followed the same trajectory as non-TCFD firms. The estimated effect is only marginally statistically significant, so it should be treated as suggestive and not conclusive evidence. However, we conducted additional robustness tests to further support the interpretation that the result is not simply driven by pre-existing differences in foreign ownership, U.S. revenue dependence (that investors avoided firms with higher dependence on U.S. revenue sources), or relative shock exposure (that firms negatively affected by the shock saw a loss in foreign ownership) Appendix B: Robustness Tests. The evidence suggests that climate disclosure may support Canada's broader diversification agenda, not as a standalone driver, but as part of a wider set of conditions shaping cross-border capital flows.

LIBERATION DAY AS AN EXTERNAL SHOCK

President Trump announced the Liberation Day tariffs after markets closed on April 2 at 4:00 p.m. Eastern Time, delaying market reaction until April 3. The heaviest stock price losses occurred in the U.S., where the S&P 500 fell 4.8%, Nasdaq 100 fell 5.4%, and the U.S. dollar depreciated against other major currencies. Across other markets, European equities fell 3.6% and Japanese equities measured by TOPIX fell 3.1%. Commodities were also affected, with oil prices notably falling by 6.4% (J.P. Morgan, 2025). Canadian equities were not spared; the S&P/TSX Composite Index also fell 3.8% on the day (Reuters, 2025). On April 4, China announced retaliatory measures, including an additional 34% tariff on all imported U.S. products, exacerbating market losses across the board (J.P. Morgan, 2025).

The event serves as a useful shock for the study; while the announcement was external and unrelated to Canadian firms' climate reporting decisions, it created a sudden reassessment of U.S.-linked policy risk by global investors (McKibbin et al., 2025). This allows the analysis to test whether firms with pre-existing TCFD-aligned disclosure were better positioned to attract foreign institutional capital after the shock.

While Canada was largely exempt from the specific tariffs associated with Liberation Day, the event still

represented a major global trade-policy shock relevant to foreign investors' capital allocation decisions. The relevant shock is not the direct tariff exposure of Canadian firms, but rather the signal that the announcement triggered about the future policy environment and the risks embedded in U.S.-linked assets. For example, some scholars already point to a weakening safety premium associated with U.S.-linked assets (Jiang et al. 2025). Morningstar's Survey of Asset Owners referenced above found that the shift in foreign economic policy undermines willingness to hold U.S. assets for diverse reasons such as perceived increases in currency risk, tariffs and a misalignment in values (Morningstar, 2025). The top reasons identified in the survey are listed in Table 1.

TABLE 1.

Rank	Reason for reducing allocation to U.S.-based assets
1	USD currency volatility
2	Tariffs on markets outside China
3	Regulatory uncertainty in the U.S.
4	Trump's election
5	High levels of fiscal debt
6	Relative valuation / expected returns by region
7	General allocation rebalancing
8	Trade tensions with China
9	Lack of U.S. political alignment with domestic policy
10	Global conflict escalation
11	Focusing more on domestic markets

Source: Morningstar

For investors, the tariffs were only one episode of a broader shift in U.S. foreign economic policy. This interpretation helps explain why the later U.S. Supreme Court ruling on February 20, 2026, that the Liberation Day tariffs were invalid, seems to have done little to appease investors and halt plans for diversification. President Trump's response to the ruling, which included a plan to re-implement tariffs through other means has only exacerbated the uncertainty associated with U.S. foreign economic policy (Baccardax, 2026). In this sense, the relevant shock may not be the tariffs themselves, but the signal they provided about the ongoing and future direction of American foreign economic policy.

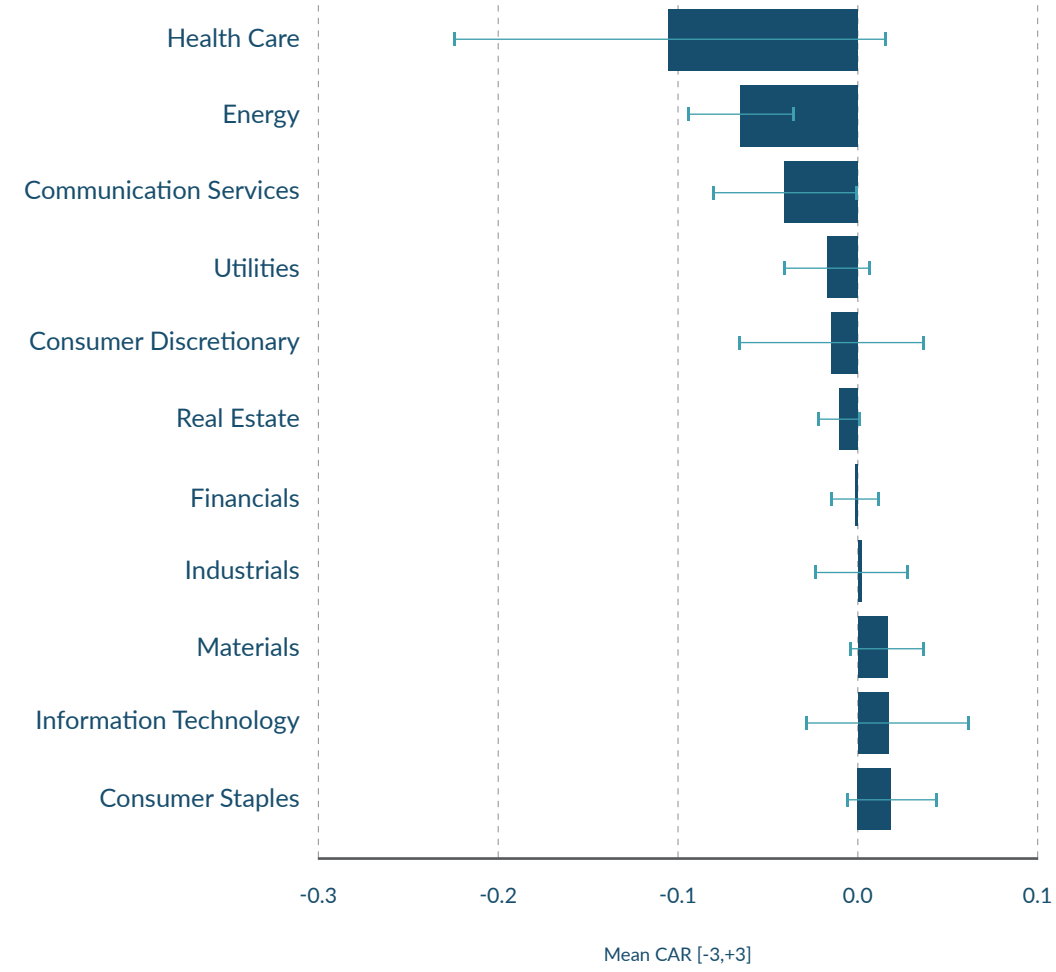
To shed light on the impact of the Liberation Day announcement in Canada, we conduct an event study to capture the cumulative abnormal returns (CAR), or in this case losses for Canadian firms following the announcement. Using an event window of 3 days prior to the shock and 3 days following the shock [-3, +3], where t=0 on April 3, we calculate the CAR across 204 Canadian firms in the S&P/TSX Composite Index.[1] In the Canadian sample, 104 firms (51% of firms) had a negative CAR, with a mean loss of 1.16%, which is statistically significant (one-sided p-value = 0.011). Figure 2. shows how different sectors reacted to the shock.

1 The event-based DiD analysis includes 206 firms, whereas the event-study window includes 204 firms because two firms lacked data availability. One firm did not have sufficient pre-shock data, and one firm did not have all stock price information available during the event-window.

FIGURE 2.

Cumulative Abnormal Returns Around Liberation Day in Canada

Bars show mean CAR, error bars show approximately 95% confidence interval



Source: Author's calculations

Taking a closer look at where losses are concentrated, we identified 18 firms with statistically significant abnormal losses.[2] Notably, the Energy sector experienced a much larger mean loss of -6.55%, representing 11 of the 18 firms with statistically significant abnormal losses. Although Energy companies were not levied with any direct tariffs, oil prices fell sharply as investors expected reduced trade, weak economic growth and consequently lower energy demand Appendix D: Calculation of Cumulative Abnormal Returns.

The following sections define the methodology and findings for our event-based difference-in-differences analysis.

2 A firm meets this threshold when its loss is large relative to its own historical return volatility before the event and its Benjamini-Hochberg adjusted one-sided q-value is below 0.05.

METHODOLOGY AND DATA

This study uses an event-based panel comprising 206 Canadian public companies from the S&P/TSX Composite Index. The sample includes firms that were in the Index at the start of 2024, excluding firms that were subsequently acquired. The study covers 10 quarterly observation periods from Q4 2023 to Q1 2026. Since the post period begins in Q2 2025, the panel contains six pre-shock quarters and four post-shock quarters. The final estimation sample contains 2,059 observations after one observation was removed because it contained a negative holdings value that reflected firm-specific conditions.

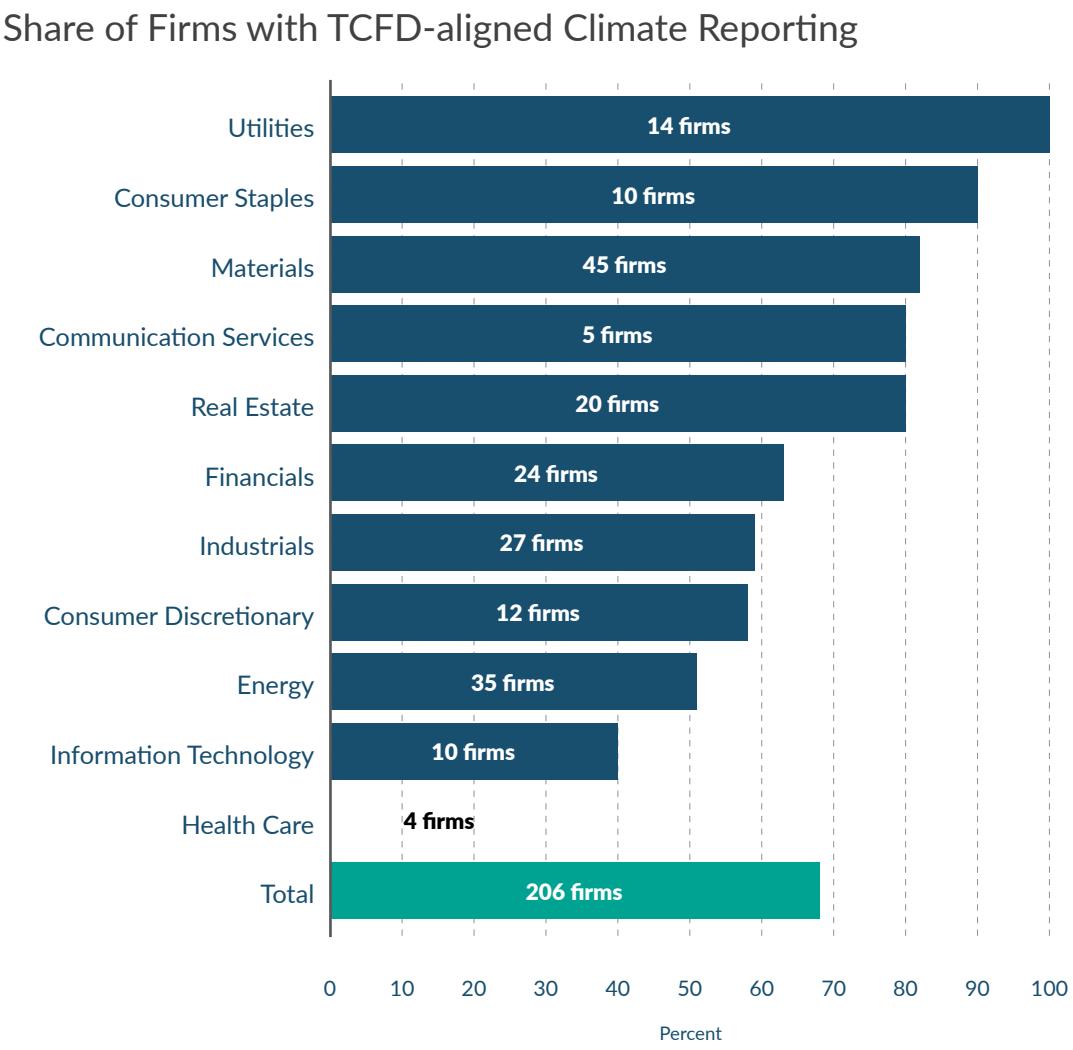
We use TCFD-aligned reporting as a proxy for climate reporting for two reasons. First, TCFD has widespread recognition and longevity, having been published in 2017 and recently integrated into IFRS Sustainability Standards (IFRS S2). Second, the Institute for Sustainable Finance has tracked TCFD alignment among firms in the S&P/TSX Composite Index since 2019, allowing treatment status to be defined consistently across firms. The ISF dataset identifies TCFD-aligned reporting as sustainability reports that reference TCFD as a guiding framework in the report and/or include a TCFD Index.

Although most jurisdictions are moving toward climate disclosure regimes based on IFRS S1 and S2, which justifies the use of TCFD as a proxy for broader climate disclosure, it is worth noting that a key jurisdiction (the EU) uses a distinct reporting framework, the European Sustainability Reporting Standards (ESRS). However, given that investors use data at the granular level, the relevant issue is often not the reporting framework itself, but the underlying climate-related data points disclosed by firms. Both standards require disclosure of key metrics such as Scope 1 and 2 emissions, transition risk exposure and governance of climate-related issues. Thus, while TCFD alignment is not identical to compliance with IFRS S2 or ESRS, a firm producing TCFD-aligned disclosure is likely to be producing much of the data required to satisfy an institutional investor's ESG mandate. For these reasons, TCFD-alignment serves as useful proxy for our analysis.

As Figure 3. shows, almost 70% of firms in the S&P/TSX Composite Index (140 firms) report according to the recommendations of TCFD, with the highest alignment in the Utilities, Consumer Staples, and Materials sectors. Meanwhile Health Care, Information Technology and Energy show the lowest levels of alignment, although low levels of alignment in the Energy sector are likely explained by the passing of anti-greenwashing measures in Bill C-59 in June 2024, which led many large upstream Energy firms to pull sustainability disclosures.

All other data used in this study are collected from S&P Capital IQ.

FIGURE 3.



The model we use in this study Appendix A: Difference-In-Differences Model Specification controls for firm fixed effects which accounts for permanent differences across firms, such as their sector, size and whether they published TCFD-aligned disclosures in 2024, and quarter fixed effects, which accounts for shocks that hit all firms at the same time, such as broad market volatility, macroeconomic conditions and aggregate shifts in foreign institutional investment. In other words, our model identifies whether foreign institutional investors adjusted their positions differently in firms that had published TCFD-aligned disclosures, beyond what can be explained by firm-level characteristics or market-wide trends.

The dependent variable is the log-transformed value of number of shares held by non-U.S. foreign institutional investors for each firm and period. Using raw shares held, rather than market value, helps reduce the direct influence of stock price changes on the holdings measure. This approach helps distinguish active changes in foreign institutional positions from changes driven by price movements. However, the number of shares held may still be affected by equity issuance, stock splits or reverse stock splits.

The log transformation also reduces the influence of higher values in foreign institutional holdings while retaining observations with zero foreign institutional ownership. Since larger firms may have more shares outstanding and therefore larger shareholdings, this transformation helps limit the influence of scale differences across firms.

The validity of our research design relies on one key assumption. Absent the Liberation Day shock, foreign institutional holdings in TCFD-aligned and non-TCFD firms would have followed similar trends. The two groups do not need to have the same baseline level of foreign holdings, since firm fixed effects absorb persistent level differences, but their pre-shock trends should be comparable Appendix C: Parallel Trends Test.

FINDINGS AND DISCUSSION

The model tests whether TCFD-aligned firms experienced a larger post-Liberation Day change in foreign institutional holdings than non-TCFD-aligned firms. The coefficient is positive and significant at the 10% level. The estimate implies that, after Liberation Day, TCFD-aligned firms experienced a 24.6% differential post-shock increase in foreign institutional holdings relative to otherwise comparable non-TCFD-aligned firms. This result is consistent with the interpretation that TCFD-aligned firms were better positioned to attract foreign capital after the shock, although the evidence should be interpreted as suggestive rather than definitive because the statistical significance level is low.

To provide additional confidence in the findings, we conduct two robustness tests Appendix B: Robustness Tests. The robustness tests strengthen somewhat our interpretation by reducing several alternative explanations. The estimate does not appear to be driven by U.S. revenue dependence, market-implied exposure to the shock or differential pre-trends Appendix C: Parallel Trends Test. However, the marginal statistical significance suggests that climate disclosure should not be interpreted as a standalone determinant of foreign institutional investment. The findings suggest that climate reporting may support Canada's broader financing diversification agenda as part of a wider set of conditions shaping cross-border capital flows.

FIGURE 4.

Non-U.S. Foreign Holdings in Canadian Firms

Foreign holdings as a share of total, by TCFD status

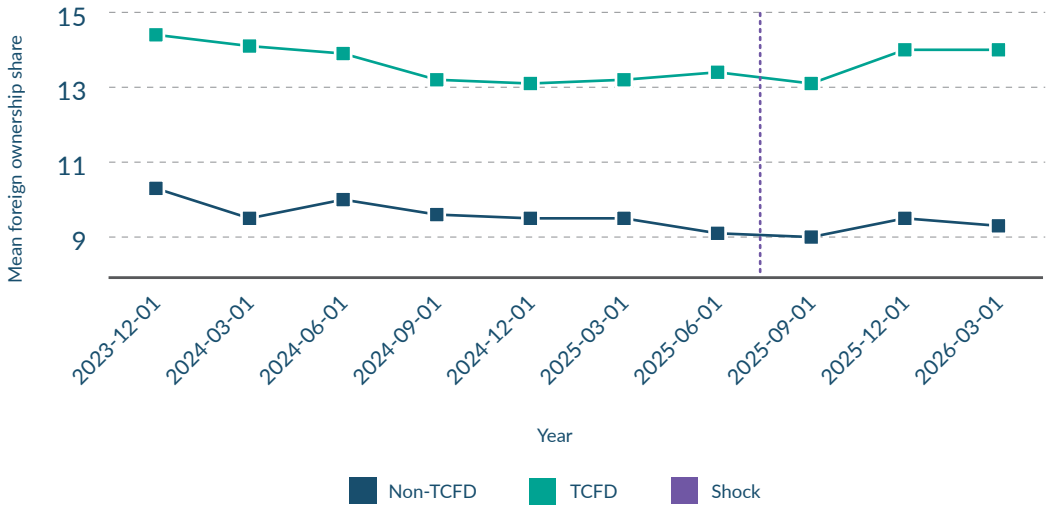


TABLE 2

Estimated Post-Shock Effect of TCFD Alignment

	Estimate	p-value
TCFD x Post	0.220	0.085 *
Implied percent effect	24.6%	
Observations	2,059	
Fixed effects	Firm + Period	
Within R-squared	0.005	

* p < 0.10, ** p < 0.05, *** p < 0.01. Standard errors clustered by firm. Outcome: log(1 + foreign institutional shares). Post = 1 for Q2 2025 onward. The percent effect is exp(0.220) - 1 = 24.6%.

Between Q1 2025 and Q1 2026, non-U.S. foreign institutional holdings in our sample of 206 Canadian firms increased by approximately 437 million shares across both TCFD-aligned and non-TCFD-aligned firms. European investors accounted for the largest share of foreign institutional holdings, both prior and post-shock. While the largest percentage increase in shares held came from investors domiciled in Latin America and the Caribbean, the largest increase in market value was attributable to European investors. Holdings by European investors rose from almost CAD $207 billion to more than CAD $245 billion, representing an increase of almost CAD $38 billion.

To examine whether the result is driven by investors from a particular region, we calculate region-specific estimates. These estimates test whether TCFD-aligned firms experienced a larger post-shock increase in foreign institutional holdings relative to non-TCFD firms within each investor region.

As Table 3 shows, the regional results suggest that the aggregate finding is most clearly explained by European investors, which has a positive coefficient and some level of statistical significance. This is consistent with the interpretation that climate disclosure may be especially relevant for investors operating in jurisdictions with more developed sustainable-finance rules. Latin America and the Caribbean is the only other region with a positive coefficient, but it is not statistically significant. This means that we cannot reliably interpret the coefficient.

TABLE 3.

Region-Specific Estimated Post-Shock Effect of TCFD Alignment

Region	Estimate	Implied effect	p-value
Europe	0.227	+25.4%	0.061
Latin America and Caribbean	0.487	+62.7%	0.353
Asia / Pacific	-0.376	-31.3%	0.399
Africa / Middle East	-0.077	-7.4%	0.828

European institutional investors often apply ESG criteria through formal mandates and negative screening policies. For example, Larcker et al. (2024) find that 73% of European institutional investors report operating under ESG mandates that limit investment choices, compared with 26% of North American investors. This helps explain our results, as firms that do not report climate data may consequently be ineligible for investment by many European institutional investors. As a result, there may be a more systematic bias towards TCFD-aligned firms in that region.

However, the survey also shows that ESG integration remains important across the institutional investor sample. More than 75% of all surveyed institutional investors continue to use ESG factors in their decision-making, and 78% of fund managers identify climate change as the most pressing ESG issue. For example, there is evidence that this trend is growing in Latin America and the Asia-Pacific.

In Latin America, Principles for Responsible Investment (PRI) signatories have nearly doubled since 2020 (Itaú BBA, 2024), while Green, Social, Sustainability, and Sustainability-Linked (GSSS) bonds increased from 9.3% of regional bond issuance in 2020 to almost 35% in 2023 (OECD, 2024). Similarly, the Asia Investor Group on Climate Change's (AIGCC) 2025 review of 230 major Asian investors found that 75% publicly recognize climate change as a material financial risk or opportunity, 54% publish climate disclosures aligned with TCFD or ISSB-related frameworks, and 66% incorporate climate change considerations into their investment policy (AIGCC, 2025).

These trends suggest that sustainability-related investment practices are growing globally and that TCFD alignment may become important for other regions as well. As ESG integration becomes institutionalized across the globe, we expect the importance of disclosures in explaining foreign institutional investment to grow across more regions.

CONCLUSIONS

Overall, the findings suggest that high-quality climate disclosure may support Canada's broader financing diversification strategy by making Canadian firms more visible and comparable to foreign institutional investors. Although TCFD alignment does not guarantee foreign capital, and the evidence remains preliminary due to low statistical significance, the results support the proposition that Canadian firms may benefit from renewed efforts to implement mandatory climate disclosure requirements. However, further research with a larger international sample would be needed to establish more conclusive evidence.

European investors represent the largest non-North American source of institutional capital invested in Canadian firms and appear to value climate reporting more systematically. Given their relative importance in any capital diversification efforts, it makes good policy sense to ensure Canadian firms remain on their radars.

While the evidence is not statistically significant for other regions, we also know that there is clear growing global alignment on the direction of sustainability disclosure policy and ESG integration by institutional investors. As capital hubs in the Asia-Pacific (e.g. Japan, Singapore, Australia) and Latin America and Caribbean regions (e.g. Brazil, Chile, Mexico) continue towards mandatory sustainability disclosure, it is likely that institutional investors from those regions are also likely to incorporate more sustainability data into their capital allocation decisions.[3]

Canada's proximity to the U.S. has historically been a competitive advantage, but it is increasingly a source of policy uncertainty. American and Canadian exchanges compete directly for listings and capital, and policymakers in Canada are understandably concerned that moving too aggressively on climate disclosure could undermine competitiveness. However, this logic creates a dependency trap: the longer Canada delays alignment with global disclosure standards, the more reliant it is likely to remain on U.S. capital. As well, despite a retreat on climate policy at the U.S. federal level, several states are still proceeding with enhanced sustainability disclosure rules. While California is leading the way, notably New York is also considering expanding its sustainability reporting requirements (Milligan, 2025).

While it is not clear whether the current rotation away from the U.S. will prove to be a more durable pattern, there is a measurable marginal benefit in attracting diversification capital. And there are clear hints that Canada would benefit from a more robust disclosure regime in the long run based on both the growing importance of disclosures globally and within specific states in the U.S.

3 For further information on the value of mandatory disclosure, see ISF Briefing Note: Will Mandatory Disclosures Strengthen Canada's Capital Markets

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APPENDIX A: DIFFERENCE-IN-DIFFERENCES MODEL SPECIFICATION

We estimate whether TCFD-aligned firms experienced a differential change in foreign institutional holdings following the Liberation Day announcement using an event-based difference-in-differences (DiD) regression of the form:

$$\mathrm{Y}_{i,t} = \beta_1 \left(\mathrm{TCFD}_i \times \mathrm{Post}_t\right) + \alpha_i + \gamma_t + \varepsilon_{i,t}$$

where:

$$\mathrm{Y}_{i,t} = \log\left(1 + \mathrm{Foreign\ Shares}_{i,t}\right)$$

The log transformation reduces the influence of higher values in foreign institutional holdings while retaining observations with zero foreign institutional ownership. Since larger firms may have more shares outstanding and therefore larger shareholdings, this transformation helps limit the influence of scale differences across firms.

TCFD_i equals one for firms with TCFD-aligned disclosure prior to the Liberation Day shock and zero otherwise. Treatment status is defined before the event to avoid contamination from any post-shock changes in disclosure behaviour.

Post_t equals one for quarters following Liberation Day and zero otherwise. Because the announcement was made on April 2, 2025 and markets priced the news the following day, Q2 2025 is treated as the first post-shock quarter.

Foreign institutional holdings are constructed by aggregating shares held by institutional investors domiciled outside North America at the firm-quarter level.

Firm fixed effects, α_i absorb time-invariant firm characteristics, including 2024 TCFD-aligned disclosure status, sector, persistent size differences, and other stable firm attributes. Quarter fixed effects, γ_t, absorb shocks common to all firms in a given quarter, including broad market volatility, macroeconomic conditions and aggregate changes in foreign institutional investment.

The coefficient of interest is β_1, which captures the differential change in foreign institutional holdings for TCFD-aligned firms relative to non-TCFD firms after the Liberation Day shock.

Standard errors are clustered at the firm level to account for serial correlation and heteroskedasticity[4] within firms over time.

4 Heteroskedasticity occurs when the variance of regression errors is not constant across observations, which can make standard errors unreliable and is commonly addressed using robust standard errors.

APPENDIX B: ROBUSTNESS TESTS

As with any quasi-natural experiment, there remain a number of alternative hypotheses that potentially have explanatory power. In order to further strengthen the analysis, we conducted two further robustness tests. We test whether higher foreign institutional investors avoided firms with higher U.S. revenue dependence and whether foreign investors avoided firms that were more exposed to negative effects from the Liberation Day announcement.

HYPOTHESIS #1: GLOBAL INVESTORS WERE WARY OF ANY FIRMS WITH HIGH REVENUE DEPENDENCE FROM THE U.S.

An alternative explanation is that global investors were not responding to climate disclosure directly but were instead avoiding firms with materially important revenue sources in the United States. If foreign investors were reducing exposure to U.S.-linked assets after Liberation Day, then firms with higher U.S. revenue dependence may have been less attractive to foreign institutional investors. Moreover, if U.S. revenue dependence were correlated with TCFD-aligned reporting, the estimated TCFD effect could reflect differences in firms' exposure to U.S. markets rather than the value of disclosure quality itself.

To test this possibility, we use a model that interacts TCFD alignment, the post-Liberation Day period, and each firm's FY 2024 U.S. revenue share. The sample begins in Q4 2023 and includes 10 quarterly periods. U.S. revenue share is mean-centred, so the coefficient on TCFD × Post represents the estimated TCFD effect for a firm with average U.S. revenue exposure. This specification tests whether firms with greater U.S. revenue exposure experienced a differential change in foreign institutional holdings after the shock, while also examining whether the TCFD effect varies with U.S. revenue dependence.

$$\begin{aligned}\log(1+\text{Foreign Shares}_{it}) &= \beta_1\left(\text{TCFD}_i \times \text{Post}_t\right) + \beta_2\left(\text{U.S. Revenue Share}_i \times \text{Post}_t\right) \\ &+\beta_3\left(\text{TCFD}_i \times \text{Post}_t \times \text{U.S. Revenue Share}_i\right) + \alpha_i + \delta_t + \varepsilon_{it}\end{aligned}$$

where $\text{U.S. Revenue Share}_i$ denotes firm i's U.S. revenue share centred around the sample mean.α_i denotes firm fixed effects and δ_t denotes period fixed effects. Standard errors are clustered by firm. The coefficient β_3 is the key triple-interaction term; it tests whether the post-Liberation Day TCFD effect varies with firms' U.S. revenue exposure.

TABLE 4.

Controlling for U.S. Revenue Dependence

	Estimate	Std. error	p-value
TCFD × Post	0.226*	0.128	0.080
U.S. Revenue Share × Post	0.386*	0.196	0.050
TCFD × Post × U.S. Revenue Share	-0.277	0.395	0.484
Observations	2,059		
Firms	206		
Periods	10		
Fixed effects	Firm + Period		
Within R-squared	0.007		

p < 0.10, ** p < 0.05, *** p < 0.01.

The results do not support the U.S. revenue-dependence explanation. The coefficient on U.S. Revenue Share × Post is positive and marginally significant, rather than negative. This is inconsistent with the idea that foreign investors broadly avoided firms with greater U.S. revenue exposure after Liberation Day. If foreign investors had primarily reduced exposure to Canadian firms because of their dependence on U.S. revenues, higher U.S. revenue share should have been associated with a decline in foreign institutional holdings after the shock.

The triple interaction provides the most direct test of whether U.S. revenue dependence explains the TCFD result. The coefficient on TCFD × Post × U.S. Revenue Share is negative but statistically insignificant. This suggests that the observed increase in foreign institutional holdings among TCFD-aligned firms is unlikely to be driven by lower U.S. revenue dependence.

HYPOTHESIS #2: THE TCFD EFFECT REFLECTS UNEVEN EXPOSURE TO THE LIBERATION DAY SHOCK

A remaining concern is that the estimated TCFD effect may capture uneven exposure to the Liberation Day shock rather than the independent effect of climate disclosure. Firms expected to be more adversely affected by Liberation Day may have experienced larger declines in foreign institutional holdings. This would bias the interpretation of the coefficient if TCFD alignment were correlated with lower exposure to the shock.

This concern is especially relevant because the market reaction to Liberation Day was not uniform across firms. In the event-study analysis described earlier in the paper, Energy firms appeared to be disproportionately affected, likely because the shock implied weaker global trade and lower expected energy demand. Since many Energy firms also stopped reporting sustainability data following heightened Canadian greenwashing rules introduced in 2024, we also test whether the main findings are robust when Energy firms are excluded.

We address the former concern first by controlling for firm-level market-implied shock exposure using cumulative abnormal returns over the $[-3, +3]$ trading-day event window around Liberation Day. A lower CAR indicates a more adverse abnormal stock-market reaction, while a higher CAR indicates a more favourable reaction. The specification interacts $\mathrm{CAR}\,[-3, +3]$ with the post-Liberation Day period and also includes a triple interaction between TCFD alignment, the post period, and $\mathrm{CAR}[-3, +3]$. This tests both whether firms with different market reactions experienced differential changes in foreign institutional holdings and whether the TCFD effect varies with market-implied shock exposure.

$\mathrm{CAR}\,[-3, +3]$ is mean-centred in the triple-interaction model, so the coefficient on TCFD × Post represents the estimated TCFD effect for a firm with average market-implied shock exposure.

TABLE 5.

Controlling for Market-Implied Shock Exposure

	Estimate	Std. error	p-value
TCFD × Post	0.226*	0.127	0.077
CAR[-3,+3] × Post	-0.525	0.507	0.302
TCFD × CAR[-3,+3] × Post	0.660	0.989	0.505
Observations	2,039		
Firms	204		
Periods	10		
Fixed effects	Firm + Period		
Within R-squared	0.005		

p < 0.10, ** p < 0.05, *** p < 0.01.

The results do not support the concern that the TCFD effect is driven by firms' market-implied exposure to the Liberation Day shock. The TCFD × Post coefficient remains positive and marginally significant after controlling for $\mathrm{CAR}\,[-3,+3]$ and its interaction with TCFD alignment. The coefficient on $\mathrm{CAR}\,[-3,+3] \times \mathrm{Post}$ is negative but statistically insignificant, indicating no reliable evidence that firms with more favourable or more adverse abnormal market reactions experienced systematically different changes in foreign institutional holdings after Liberation Day.

The triple interaction between TCFD alignment, the post period, and $\mathrm{CAR}\,[-3,+3]$ is also statistically insignificant. This indicates that there is no statistically significant evidence that the TCFD effect varies systematically with firms' market-implied exposure to the shock. Overall, the results suggest that the observed increase in foreign institutional holdings among TCFD-aligned firms is unlikely to be explained by differential stock-market exposure to Liberation Day.

The second concern is addressed by rerunning the primary model while excluding Energy firms from the sample. This test addresses the possibility that the main result is driven by sector-specific dynamics in Energy, rather than by disclosure quality more broadly. If the TCFD result were primarily an energy-sector artifact, the estimated TCFD effect should weaken substantially after energy firms are removed from the sample.

TABLE 6.

Excluding Energy Firms to Address Bill C-59 Disclosure Effects

	Full sample	Excluding Energy
TCFD × Post	0.220*	0.263*
	(0.127)	(0.145)
Observations	2,059	1,709
Firms	206	171
Periods	10	10
Fixed effects	Firm + Period	Firm + Period
Within R-squared	0.005	0.006
Implied percent effect	24.7%	30.1%

p < 0.10, ** p < 0.05, *** p < 0.01.

Excluding Energy firms does not weaken the result. Instead, the estimated TCFD coefficient increases from 0.220 in the full sample to 0.263 in the non-Energy sample. This implies approximately 30.1% higher foreign institutional holdings for TCFD-aligned firms after Liberation Day when Energy firms are removed. The result therefore reduces the concern that the main finding is driven by Energy firms or by Bill C-59-related disclosure dynamics in that sector.

It is also worth noting that the energy sector rebounded once it became clear that the tariffs would be much lower than initially expected. By the end of Q2 2025, the energy sector's average cumulative abnormal return was already positive at approximately +3.0%. It rose further to +8.0% by the end of Q3 2025, +13.6% by the end of Q4 2025, and +41.6% by the end of Q1 2026. Thus, foreign institutional investors would not have avoided Canadian Energy firms due to stock price performance.

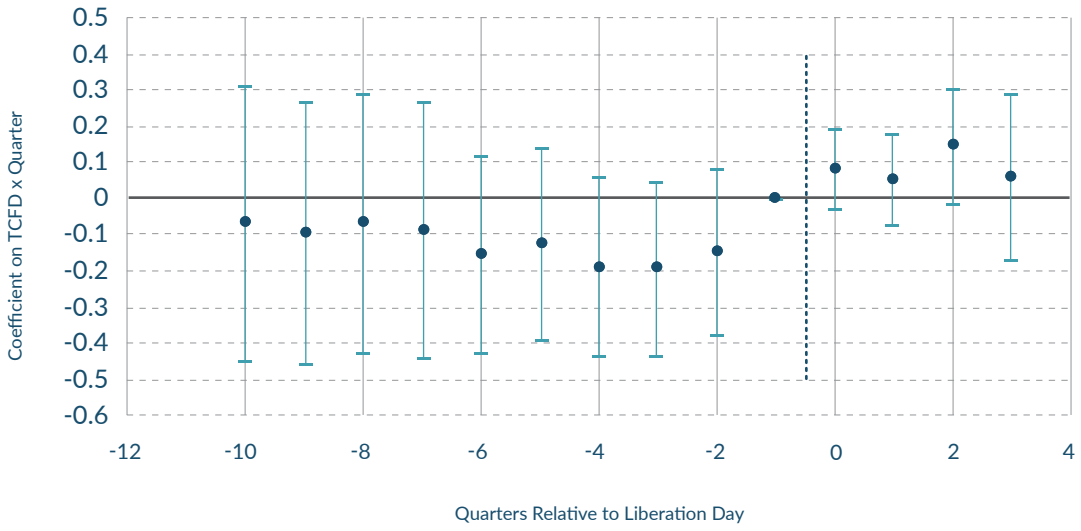
APPENDIX C: PARALLEL TRENDS TEST

To support the validity of our findings, we test whether TCFD-aligned firms were already on a different foreign-ownership trajectory before Liberation Day. If TCFD-aligned firms were already attracting more foreign institutional capital before the shock, then the post-Liberation Day result could reflect a continuation of pre-existing trends rather than a differential investor response to the shock.

We estimate an event-study model using all quarters from Q4 2022 to Q1 2026. This gives the analysis a longer pre-shock period. This longer window provides nine pre-treatment quarters and four post-treatment quarters. TCFD status is fixed based on whether a firm reported in line with TCFD in 2024, so the treatment indicator captures whether a firm entered the Liberation Day shock with TCFD-aligned disclosure. The quarter immediately before Liberation Day, Q1 2025, is used as the reference period. Each coefficient therefore measures the difference between TCFD-aligned and non-TCFD firms relative to Q1 2025. The model includes firm and period fixed effects, and standard errors are clustered at the firm level.

FIGURE 5.

Event Study: TCFD Effect on Foreign Institutional Holdings



The event-study results provide no statistical evidence that TCFD-aligned and non-TCFD firms were on differential pre-treatment trajectories before Liberation Day. None of the nine pre-treatment coefficients are statistically significant. A joint test of all pre-treatment coefficients also fails to reject the null that they are jointly equal to zero. This supports the parallel-trends assumption underlying the event-based difference-in-differences design.[5]

5 As an additional check, we examine whether TCFD adoption was associated with a greater foreign ownership before Liberation Day. Using a 2016–2022 panel and staggered difference-in-differences specifications, we found no statistically significant relationship between TCFD adoption and total foreign institutional holdings. This provides supporting evidence that TCFD-aligned firms were not already benefiting from a persistent foreign-ownership premium prior to the Liberation Day shock.

APPENDIX D: CALCULATION OF CUMULATIVE ABNORMAL RETURNS

To measure each firm's market-implied exposure to the Liberation Day shock, cumulative abnormal returns are calculated using a standard market-model event study. The event date is defined as the first trading day on which the Liberation Day announcement could be incorporated into equity prices. For each firm i, daily stock returns are first calculated as:

$$R_{it} = \frac{P_{it}}{P_{i,t-1}} - 1$$

where P_{it} is the closing price of firm i on trading day t. Market returns are calculated analogously using the benchmark market index:

$$R_{mt} = \frac{P_{mt}}{P_{m,t-1}} - 1$$

Expected returns are estimated using a market model over the pre-event estimation window:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

The estimated market-model coefficients, $\hat{\alpha}_i$ and $\hat{\beta}_i$, are then used to calculate each firm's expected return during the event window:

$$\widehat{R}_{it} = \hat{\alpha}_i + \hat{\beta}_i R_{mt}$$

Abnormal returns are defined as the difference between the firm's realized return and its expected return:

$$AR_{it} = R_{it} - \widehat{R}_{it}$$

The cumulative abnormal return is then calculated by summing abnormal returns over the seven-trading-day event window from three trading days before to three trading days after the event:

$$CAR\Big[-3, +3\Big]_i = \sum_{t=-3}^{+3} AR_{it}$$

This measure captures each firm's abnormal stock-market reaction around Liberation Day, net of broader market movements. A more negative $CAR\,[-3, +3]$ indicates a more adverse market reaction to the shock, while a more positive value indicates a more favourable market reaction. In the robustness analysis, $CAR\,[-3, +3]$ is used to test whether changes in foreign institutional holdings are explained by firms' market-implied exposure to the Liberation Day shock rather than by TCFD-aligned disclosure.