ABSTRACT AND KEYWORDS

This paper examines the returns of stock included into a newly launched Indonesia Sustainability index, IDX ESG Leaders by using event study methodology. Two sub events are studied here i.e. around the announcement date and effective date of the index. Further, the significant stock return during such period is analyzed to see if there is any relationship with the firm's ESG risk rating published by Sustainalytics with additional possibility that it might be strengthened (or moderated) by the firm's profitability.

Some similarities yet differences with the previous studies result are found where there are significant return around the effective date window but not in the announcement date. In addition, apparently ESG Risk Rating does not provide significant influence to the return during that period, thus no moderating effect can be found also from the firm's profitability to such relationship.

Because of there is delay from the announcement to the investor reaction that it becomes significant during the effective date, the possible explanation is that there is issue with the communication effectiveness concerning the announcement. Also, since firm's ESG Risk Rating cannot be associated with the stock return, there is indication that investors simply want to reap short-term benefits (capital gain) from the events of firms' stock inclusion in the index and react indifferently to the firm's ESG risk rating (since lower rating represents better ESG performance).

Keywords: Sustainability, ESG Risk Rating, IDX ESG Leaders, Event Study, Indonesia Market, Abnormal Return