

ENERGYCAP®

**Everything you need to
know about**

CALIFORNIA'S

climate laws

**A comprehensive guide to S.B. 253 and S.B. 261
(and more) for energy leaders and companies**

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Introduction

Large companies face continuous challenges in navigating the evolving landscape of environmental regulations and commitments, especially in the past few years. On August 16, 2022, President Biden signed the Inflation Reduction Act into law, the largest piece of climate regulation in American history. Since then, its future has become uncertain as battles over disbursements and revisions rage. As the federal government takes a lighter stance on energy efficiency reporting, incentives, and legislation, many individual states remain committed to increased regulation.

California has long been a trailblazer amongst the 50 states in the fight against climate change and the promotion of sustainable practices, taking steps towards greenhouse gas emission reduction, a clean energy economy, and sustainable development. In alignment with this commitment, Governor Newsom signed both S.B. 253 and S.B. 261 into law on October 7, 2023.

- ▶ S.B. 253, or The Climate Corporate Data Accountability Act, mandates that all business entities formed under U.S. law that do business in California and have total annual revenue exceeding \$1 billion annually measure and publicly disclose their Scope 1 and Scope 2 GHG emissions beginning in 2026 (covering FY2025 data), with Scope 3 disclosure beginning in 2027 (covering FY2026 data).
- ▶ S.B. 261, or The Climate-Related Financial Risk Act, mandates that all business entities formed under U.S. law doing business in California and generating revenues exceeding \$500 million must publicly disclose their climate-related financial risks and the strategies they employ to address them biennially starting in 2026.

In this eBook we unpack the implications of California's S.B. 253 and S.B. 261 which are crucial to maintain compliance, foster sustainability, and facilitate readiness and strategic implementation.

Executive summary

With S.B. 253, The Climate Corporate Data Accountability Act, and S.B. 261, The Climate-Related Financial Risk Act, now moving from law into action, companies formed under U.S. law and doing business in the state of California face immediate reporting deadlines. Implementation of the laws is overseen by the California Air Resources Board (CARB), which has shown a clear commitment to beginning compliance in 2026. The window to stand up governance, data pipelines, and assurance is short, and teams should be actively preparing for these disclosures.

While these climate rulings are just within the state, they will affect MNCs around the world and do not stand isolated. They join a host of other global climate disclosure rulings, including the recently simplified EU Corporate Sustainability Reporting Directive (CSRD) and accompanying European Sustainability Reporting Standards (ESRS), and the SEC Climate Disclosure Rules (though these remain stayed and inactive under litigation).

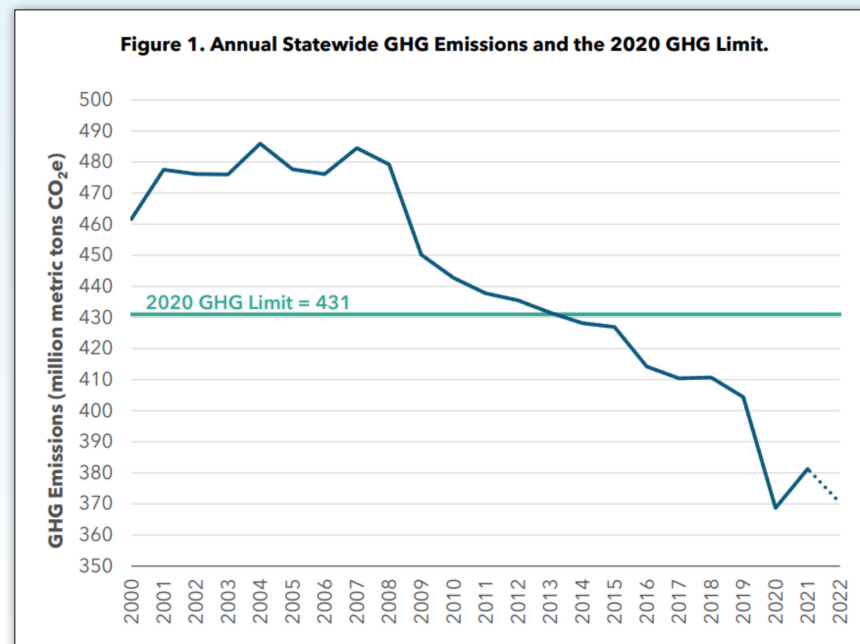
Even as the U.S. Federal government steps back from country-wide climate-disclosure reporting, the movement towards broader reporting and more climate data transparency continues to grow. Many companies already disclose climate information, but they do it under different methods and frameworks, which won't necessarily satisfy these new mandates. Meeting upcoming deadlines may require changing where you report, how you calculate emissions, and how your data is assured—with clearer governance, standardized metrics, and public reporting in the formats regulators require.

California's climate legislation

California has been at the forefront of progressive climate legislation for decades, leading the way in the United States with a series of groundbreaking laws and initiatives aimed at combating climate change, reducing greenhouse gas emissions, and promoting sustainable energy practices. As the world's **fourth largest economy**, California's actions and legislation have ripple effects across the globe. With its long history of environmental advocacy and innovation, the state has consistently demonstrated a strong commitment to addressing the impacts of climate change and fostering a sustainable future for its residents and beyond.

Historical context of California's climate laws

The foundation for California's aggressive approach to climate legislation can be traced back to the early 2000s, when the state took pioneering steps towards establishing itself as a global leader in environmental policy. One pivotal moment in this trajectory was the passage of the **California Global Warming Solutions Act of 2006**, also known as Assembly Bill 32 (A.B. 32). This landmark legislation required the state to measure, report, and verify their carbon emissions and set ambitious targets for reducing greenhouse gas emissions, requiring the state to bring emissions back to 1990 levels by 2020. A.B. 32 also introduced a comprehensive cap-and-trade program, cementing California as a trailblazer in carbon market initiatives.



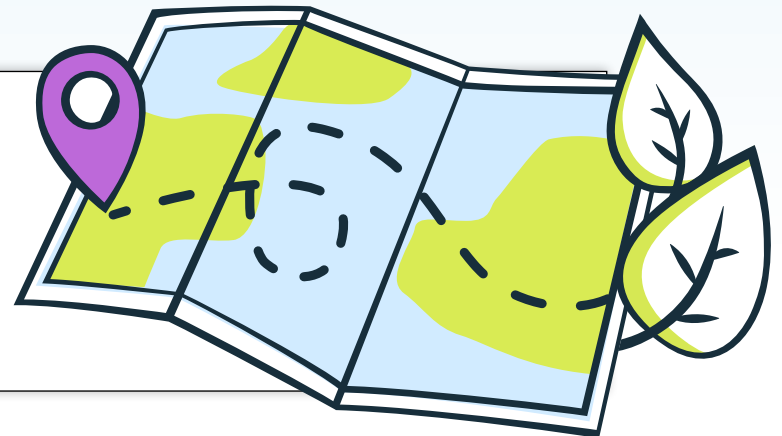
California's annual GHG emissions from 2000 to 2021 in relation to the 2020 GHG limit established by AB 32 (431 MMTCO₂e)

Each year the California Air Resources Board (CARB) produces a statewide Greenhouse Gas Emissions Inventory tracking progress on the state's GHG targets. **Figure 1** shows California's annual GHG emissions from 2000 to 2021 in relation to the 2020 GHG limit established by AB 32 (431 MMTCO₂e). California's GHG emissions dropped below this 2020 GHG Limit in 2014 (428.2 MMTCO₂e) and have remained below this level since that time.

Following the success of A.B. 32, California continued to solidify its commitment to combating climate change with the passage of **Senate Bill 32 (S.B. 32)** in 2016. Building upon the foundation laid by A.B. 32, S.B. 32 strengthened California's climate goals by mandating a further reduction in greenhouse gas emissions to 40% below 1990 levels by 2030. This legislative move showcased California's enduring dedication to long-term sustainability and environmental stewardship.

In addition to these pivotal laws, California has implemented a suite of complementary measures and regulations aimed at **promoting renewable energy**, using **electric vehicles**, **reducing emissions**, and fostering the **widespread adoption of clean technologies**. These efforts, combined with stringent emissions standards and ongoing **investment in renewable energy infrastructure**, have firmly positioned California as a vanguard in the fight against climate change, serving as a model for other states and nations to emulate.

As California continues to navigate the complexities of climate change and environmental sustainability, the state's commitment to enacting bold climate legislation remains unwavering.



S.B. 253: The Climate Corporate Data Accountability Act

Overview

The **Climate Corporate Data Accountability Act**, also known as California Senate Bill 253 (S.B. 253), was introduced to address the increasing concerns surrounding corporate transparency and accountability in relation to climate-related risks and impacts. S.B. 253 mandates that all companies formed and operating under U.S. law, public or private, generating revenues exceeding \$1 billion in California, disclose their emissions starting in 2026 (based on 2025 data). The bill also necessitates third-party validation of their disclosures.

S.B. 253 was proposed by Senator Scott Wiener (D-San Francisco) in January 2023, and signed it into law on October 7, 2023. In January 2024, a collection of business groups filed suit, challenging both S.B. 253 and S.B. 261 in court. Those proceedings are **ongoing**, but courts have declined to block implementation or enforcement of the law in the meantime, and CARB is requiring compliance as-planned beginning in 2026.

S.B. 253 seeks to promote transparency and provide shareholders, investors, and the public with comprehensive, standardized data on how companies are addressing and mitigating climate-related risks, as well as the impact of these risks on their long-term viability.

Additionally, S.B. 253 is designed to align with global efforts to enhance corporate climate disclosure standards, in accordance with initiatives such as the Task Force on Climate related Financial Disclosures (TCFD) framework.

Objectives and goals of the law

The ultimate objective of the Climate Corporate Data Accountability Act is to facilitate a greater understanding of how climate-related factors may affect corporate performance, financial stability, and resilience. Through enhanced transparency and accountability, the legislation aims to empower investors, consumers, and other stakeholders to make more informed decisions, promote sustainable investment practices, and drive a transition towards a low-carbon economy.

Key provisions and requirements

All business entities with total annual revenues in excess of \$1 billion and that do business in California are required to annually measure and publicly disclose:

- ▶ their scope 1 and scope 2 greenhouse gas emissions starting in 2026 (based on 2025 data)
- ▶ their scope 3 greenhouse gas emissions starting in 2027 (based on 2026 data)

Businesses also need to obtain an assurance engagement, performed by an independent third-party assurance provider, of the entity's public disclosure. A limited assurance for Scopes 1–2 is required with 2026 filings, followed by reasonable assurance by 2030. Scope 3 assurance may be set by CARB, which plans to release a decision on this matter by January 1, 2027.

The initial due date for SB 253 reporting was set for June 30th, 2026. Due to the volume of public commentary and confusion surrounding the law (particularly Scope 3 accounting and disclosures), CARB has stated that they will “propose an updated timeline for bringing the initial rulemaking (including the fee-related provisions) to the board in Q1 2026”, though they've remained firm that mandatory disclosures will begin

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S.B. 261: The Climate-Related Financial Risk Act

Overview

The Climate-Related Financial Risk Act, also known as California Senate Bill 261 (S.B. 261), pertains to the disclosure of climate-related financial risks by businesses entities operating in California. The bill aims to address the growing concerns regarding the impact of climate change on the financial landscape and to ensure that companies incorporate climate risk mitigation measures into their business strategies.

S.B. 261 was proposed by Senator Henry Stern (D-Los Angeles) in January 2023. The Governor signed it into law on October 7, 2023 and included a signing message acknowledging concerns about the bill's implementation timeline and potential financial impact. Alongside S.B. 253, S.B. 261 was promptly challenged in California courts. The courts have declined to delay either bills' implementation as the trial, **currently scheduled for October 2026**, approaches.

Under S.B. 261, businesses with annual revenues exceeding \$500 million that operate in California are required to biennially disclose climate-related financial risks and their corresponding mitigation strategies to the public. The legislation seeks to enhance transparency and accountability, enabling stakeholders, investors, and the public to gain insight into how climate-related risks may affect the financial well-being and long-term viability of these businesses.

Objectives and goals of the law

Through the disclosure of climate-related financial risks and mitigation strategies, S.B. 261 seeks to foster more robust and sustainable business practices, integrate climate considerations into corporate decision-making, and promote investment in climate-resilient strategies. The public availability of this information allows investors and stakeholders to make informed decisions and encourages companies to adopt measures that enhance their resilience to climate-related challenges.

S.B. 261 underscores California's commitment to addressing climate change as a financial risk and the state's proactive efforts to align its financial sector with climate goals. By integrating climate risk assessment and disclosure into business operations, S.B. 261 aims to facilitate a more comprehensive understanding of climate risks and encourage businesses to implement strategies that contribute to a more resilient and sustainable economy.

Key provisions and requirements

All business entities with total annual revenues in excess of \$500 million and that do business in California are required to biennially prepare a climate-related financial risk report disclosing the following:

- ▶ Their climate-related financial risk in accordance with one of two recommended frameworks: the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), the International Sustainability Standards Board (ISSB) IFRS S2 Climate-related Disclosures (2023), or in accordance with an “equivalent reporting framework”.
- ▶ Their measures adopted to reduce and adapt to climate-related financial risk

Initial S.B. 261 reporting is due on January 1, 2026, and must be submitted biennially thereafter. Starting on December 1, 2025, and closing on July 1, 2026, CARB will post a public docket for reporting entities to upload a link to their climate-related financial risk report. This link should point to the company’s website, where S.B. 261 also requires the report to be posted.

Scope 1–3 emissions reporting was originally a requirement of S.B. 261, but due to possible overlap with S.B. 253 and variances between reporting structures, has been removed as a requirement.

CARB has published several resources in advance of the imminent reporting deadline, including a [**compliance checklist**](#) and [**FAQ**](#) meant to clarify the required reporting materials.

S.B. 261 vs. S.B. 253: What's the difference?

S.B. 253 and S.B. 261 go hand-in-hand. Both climate rulings were signed into law on the same day in 2023, both affect businesses (corporations, partnerships, LLCs, or other business entities) doing business in California, and both require the reporting of climate data starting in 2026.

However, there are a few key differences in these laws:

- ▶ S.B. 261 affects businesses generating revenues exceeding \$500 million, while the cutoff for S.B. 253 is \$1 billion. This means that S.B. 261 will affect more companies.
- ▶ Full reporting for S.B. 261 begins on January 1, 2026 and continues biennially thereafter (the next set of reports will be due on January 1, 2028). The exact due date for submitted materials to comply with S.B. 253 is still undetermined, though a June 30th, 2026 data has been proposed; CARB plans to announce the final date in Q1 2026. Even then, only Scope 1 and 2 data is required in 2026. Scope 3 data is not due until 2027.
- ▶ While S.B. 261 is more far-reaching, reporting is less stringent—focusing on governance, risk, and resilience; reporting frameworks are flexible, emissions reporting is optional for initial reports, and the state is emphasizing good-faith efforts over penalties for non-compliance. By contrast, S.B. 253 mandates measurement, validation, and disclosure of Scopes 1, 2, and 3 emissions with third party assurance, which is no easy task.



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Impact analysis

The current legislative landscape

S.B. 253 and S.B. 261 come amidst a time of both global push for, and resistance to, climate disclosure laws.

SEC Climate Disclosure Rule

The US Securities and Exchange Commission (SEC) adopted a landmark climate disclosure rule on March 6, 2024. The final rule established standardize climate-related disclosures across all public companies in the US (not just those in California exceeding \$1 billion or \$500 million in revenue), required Scope 1 and 2 reporting, and the creation of comprehensive corporate strategies to mitigate climate-change related risks. The ruling covered much of the same territory as S.B. 253 and S.B. 261, with even more requirements.

The SEC ruling was immediately challenged in multiple courts, and the SEC stayed the rule in April 2024. In March 2025, the SEC ended its defense of the rule, and litigation was paused in September 2025. Its future is now uncertain, leaving companies reliant on California and EU standards in the near term.

European Sustainability Reporting Standards (ESRS)

The European Union (EU) announced in 2023 the finalization of the **European Sustainability Reporting Standards (ESRS)**, marking a significant milestone in corporate sustainability reporting. The ESRS framework seeks to provide a comprehensive and standardized set of reporting requirements for companies operating within the EU, with the aim of enhancing the transparency and comparability of sustainability-related disclosures.



ESRS requires eligible companies to disclose comprehensive and standardized information on their environmental, social, and governance (ESG) impacts, risks, and opportunities, including a double materiality assessment and reporting across the company's entire value chain.

The ESRS are part of the **Corporate Sustainability Reporting Directive (CSRD)**, and are being phased in for the roughly 50,000 affected companies operating in the EU. Affected companies must meet at least two of the following criteria:

- ▶ More than 250 employees
- ▶ More than €40 million in net turnover
- ▶ More than €20 million in assets
- ▶ Non-EU companies generating more than €150 million in annual EU revenue and with at least one EU subsidiary or branch also fall under the scope

The ESRS is being implemented in a phased approach, starting with large companies (>500 employees) reporting on FY 2024 in 2025, with additional reporting tiers through FY 2028. By providing a consistent and structured framework for reporting, the ESRS aims to bolster the reliability and comparability of sustainability disclosures, enabling investors to make more informed decisions and fostering greater trust and accountability within the corporate sector.

EU Non-Financial Reporting Directive (NFRD)

The CSRD expanded upon the **Non-Financial Reporting Directive (NFRD)**, a significant regulatory framework that aimed to enhance transparency and accountability within European businesses by mandating the disclosure of non-financial information related to environmental, social, and employee matters, respect for human rights, anti-corruption, and bribery issues. Enacted by the EU, the NFRD required certain large companies with over 500 employees to annually report on their non-financial performance. The directive also provided guidelines for the reporting methodology, ensuring a consistent and comparable approach to non-financial reporting across different companies.

The NFRD has since been superseded by the CSRD, moving in-scope companies from the old, high-level non-financial statement to detailed ESRS-based sustainability reporting starting in FY2024 (reported in 2025) and phasing in additional cohorts through 2029.

Compliance and implementation

CARB is still finalizing the mechanics of California's climate-disclosure regime, with numerous workshops, FAQ sessions, and guidance drafts published throughout 2025 attempting to clarify who is covered, when first reports are due, assurance expectations, and fee funding.

A formal rule package for S.B. 253 is slated for Board consideration in Q1 2026. Open items include the exact first-year due date and upload format to the emissions-reporting platform, phased assurance for Scopes 1–2, how Scope 3 screening and estimation will be treated in early years, and edge-case questions about “doing business in CA.”

For SB 261, CARB has issued a **draft checklist** confirming the January 1, 2026 due date of initial reports, the biennial cadence, and web-posting requirement. Companies can ask questions or provide input to CARB by attending CARB's public workshops, or submitting written comments to CARB's climate disclosure information-solicitation docket at **climatedisclosure@arb.ca.gov**.

Resources for further learning

Learn more about Scope 1, 2, and 3 reporting

- ▶ [EnergyCAP Carbon Hub accounting software](#)
- ▶ [eBook] [Carbon Accounting 101](#)
- ▶ [Recorded Webinar] [Laying the Data Foundation for Carbon Accounting](#)

Unpacking European Climate Regulations

- ▶ [Recorded Webinar] [European Climate Regulations](#)
- ▶ [Recorded Webinar] [Energy Management Strategies for EU Commercial Organizations](#)

Other helpful resources

- ▶ [Recorded Webinar] [Energy management 101](#)
- ▶ [Guide] [Building the Business Case for Energy and Sustainability Software](#)
- ▶ [eBook] [Decarbonizing Operations 101](#)

About the author

This eBook was originally written by Neesha Basnyat, who was contracted by EnergyCAP, and published in 2024. Her portfolio can be [viewed here](#). The content herein was updated and republished by EnergyCAP in October 2025.

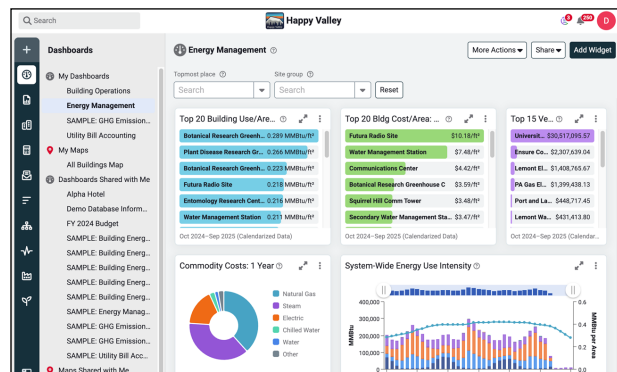
About EnergyCAP

EnergyCAP is the expert-driven energy management platform that centralizes utility, energy, and carbon data—uniting bills, meters, emissions, and interval readings into a single source of truth.

For teams preparing S.B. 253/261 disclosures, EnergyCAP automatically converts bill and meter data into Scope 1–3 emissions for complete GHG accounting in the same platform you’re already using for energy management, and puts audit-ready reports and customized dashboards into the hands of third party assurers, internal stakeholders, or the public. Built on best-in-class bill data capture and analysis, EnergyCAP eliminates emissions accounting rework, enables massive utility bill savings, and lowers the cost of compliance. Backed by 40+ years of category expertise, billions of bills processed, and multiple awards, EnergyCAP gets you S.B. 253-ready, without drowning in spreadsheets.

Start with Utility Management

Centralize utility bills and meter data, validate every invoice, and standardize processes across sites. Build your utility management foundation without spreadsheet gymnastics.



Powerful add-ons:

Smart Analytics

Interval data to analyze usage trends, dig into anomalies, and find savings—powered by AI.

Carbon Hub

Powerful utility-based carbon tracking and streamlined GHG reporting tools.

Bill CAPture

Let us collect, capture, and process your utility bills with specialized bill processing services.

Advanced Accounting

Our powerful trio of accounting features: accounting export, utility budgets, and bill accruals.

Chargebacks

Quickly allocate and recoup utility costs from tenants, across departments, by project, and more.

BI Reporting

Connect your energy data using the power and flexibility of your favorite business intelligence applications: Power BI®, Tableau®, Excel, and others.

Appendix

Senate Bill No. 253

CHAPTER 382

An act to add Section 38532 to the Health and Safety Code, relating to greenhouse gases, and making an appropriation therefor.

[Approved by Governor October 07, 2023. Filed with Secretary of State October 07, 2023.]

LEGISLATIVE COUNSEL'S DIGEST

SB 253, Wiener. Climate Corporate Data Accountability Act.

The California Global Warming Solutions Act of 2006 requires the State Air Resources Board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the act. The act requires the state board to make available, and update at least annually, on its internet website the emissions of greenhouse gases, criteria pollutants, and toxic air contaminants for each facility that reports to the state board, as provided.

This bill would require the state board, on or before January 1, 2025, to develop and adopt regulations requiring specified partnerships, corporations, limited liability companies, and other business entities with total annual revenues in excess of \$1,000,000,000 and that do business in California, defined as “reporting entities,” to publicly disclose to the emissions reporting organization, as defined, and obtain an assurance engagement on, starting in 2026 on a date to be determined by the state board, and annually thereafter, their scope 1 and scope 2 greenhouse gas emissions, as defined, and, starting in 2027 and annually thereafter, their scope 3 greenhouse gas emissions, as defined, from the reporting entity’s prior fiscal year, as provided. The bill would require the state board to review during 2029, and update as necessary on or before January 1, 2030, these deadlines to evaluate trends in scope 3 emissions reporting and to consider changes to the deadlines, as provided. The bill would require a reporting entity to obtain an assurance engagement, performed by an independent third-party assurance provider, of the entity’s public disclosure as provided. The bill would require the state board, in developing these regulations, to consult with the Attorney General, other government stakeholders, investors, stakeholders representing consumer and environmental justice interests, and reporting entities that have demonstrated leadership in full-scope greenhouse gas emissions accounting and public disclosure and greenhouse gas emissions reductions. The bill would also require the state board to ensure that the assurance process minimizes the need for reporting entities to engage multiple assurance providers and ensures sufficient assurance provider capacity, as well as timely reporting implementation, as required. The bill would further require the state board to contract with an emissions reporting organization to develop a reporting program to receive and make publicly available the required disclosures. The bill would authorize the state board, starting in 2033 and every 5 years thereafter, to assess the global greenhouse gas accounting and reporting standards and to adopt an alternative standard if it determines that using the alternative standard would more effectively further the goals of the bill.

This bill would require the state board, on or before July 1, 2027, to contract with the University of California, the California State University, a national laboratory, or another equivalent academic institution to prepare a report on the public disclosures made by reporting entities to the emissions reporting organization. The bill would require, in preparing the report, consideration to be given to, at a minimum, greenhouse gas emissions from reporting entities in the context of state greenhouse gas emissions reduction and climate goals. The bill would require the state board to provide the report to the emissions reporting organization to post on a digital platform that would be required to be created by the emissions reporting organization, and publicly

accessible, to house the state board's report and the reporting entities' public disclosures. The bill would require the emissions reporting organization to provide the state board's report to the relevant policy committees of the Legislature.

This bill would require a reporting entity, upon filing its disclosure, to pay to the state board an annual fee set by the state board, as provided. The bill would create the Climate Accountability and Emissions Disclosure Fund, require the proceeds of the fees to be deposited in the fund, and continuously appropriate the moneys in the fund to the state board for purposes of the bill. By creating a continuously appropriated fund, the bill would create an appropriation. The bill would require the state board to adopt regulations that authorize it to seek administrative penalties for violations of these provisions, as specified.

DIGEST KEY

Vote: majority Appropriation: yes Fiscal Committee: yes Local Program: no

BILL TEXT

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

- (a) California has demonstrated its leadership in the battle against climate change and the climate actions of the state have inspired and contributed to bold actions in other states and across the globe.
- (b) Californians are already facing devastating wildfires, sea level rise, drought, and other impacts associated with climate change that threaten the health and safety of Californians, undermines the sustainability of our communities, particularly those communities most affected by the negative effects of climate change, and the economic well-being of the state and its residents, including threatening many of the state's largest industries.
- (c) Climate change also poses a significant risk to companies' long-term economic success and disrupts the value chains on which they rely. Managing these risks requires investments in decarbonization strategies that unlock emissions reductions and provide economic benefits for Californians and the state economy.
- (d) California has achieved record economic growth, is on track to be the fourth largest economy in the world, and is a highly desirable market for the globe's most profitable companies.
- (e) California investors, consumers, and other stakeholders deserve transparency from companies regarding their greenhouse gas (GHG) emissions to inform their decision making.
- (f) United States companies that have access to California's tremendously valuable consumer market by virtue of exercising their corporate franchise in the state also share responsibility for disclosing their contributions to global GHG emissions.
- (g) Companies can increase the state's climate risk through emissions activities that include, but are not limited to, company operations, supply chain activities, employee and consumer transportation, goods production and movement, construction, land use, and natural resource extraction.
- (h) Accurate and comprehensive data that is subject to an assurance engagement performed by an independent third-party assurance provider is required to determine a company's direct and indirect GHG emissions, also known as its carbon footprint, and to effectively identify the sources of the emissions and develop means to reduce the same.

- (i) The current approach for disclosure of climate emissions from public and private corporate enterprises relies largely on voluntary reporting of GHG inventories, goals, commitments, and agreements, and lacks the full transparency and consistency needed by residents and financial markets to fully understand these climate risks.
- (j) The people, communities, and other stakeholders in California, facing the existential threat of climate change, have a right to know about the sources of carbon pollution, as measured by the comprehensive GHG emissions data of those companies benefiting from doing business in the state, in order to make informed decisions.
- (k) The Greenhouse Gas Protocol is the globally recognized GHG emissions accounting and reporting standard developed and updated by the World Resources Institute and the World Business Council for Sustainable Development and provides the framework for corporate GHG emissions accounting and reporting. The framework defines and categorizes emissions as scopes 1, 2, and 3 emissions. Many companies already partially or fully disclose their emissions data.
- (l) Mandating annual, full-scope GHG emissions data reporting to the emissions reporting organization for all United States companies with total annual revenues in excess of \$1,000,000,000 that do business in California, as well as ensuring public access to the data in a manner that is easily understandable and accessible, will inform investors, empower consumers, and activate companies to improve risk management in order to move towards a net-zero carbon economy and is a critical next step that California must take to protect the state and its residents.

SECTION 2. Section 38532 is added to the Health and Safety Code, to read:

38532. (a) This section shall be known, and may be cited, as the Climate Corporate Data Accountability Act.

(b) For purposes of this section, the following terms have the following definitions:

- (1) “Emissions reporting organization” means a nonprofit emissions reporting organization contracted by the state board pursuant to paragraph (2) of subdivision (c) that both:
 - (A) Currently operates a greenhouse gas emission reporting organization for organizations operating in the United States.
 - (B) Has experience with greenhouse gas emissions disclosure by entities operating in California.
- (2) “Reporting entity” means a partnership, corporation, limited liability company, or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States with total annual revenues in excess of one billion dollars (\$1,000,000,000) and that does business in California. Applicability shall be determined based on the reporting entity’s revenue for the prior fiscal year.
- (3) “Scope 1 emissions” means all direct greenhouse gas emissions that stem from sources that a reporting entity owns or directly controls, regardless of location, including, but not limited to, fuel combustion activities.
- (4) “Scope 2 emissions” means indirect greenhouse gas emissions from consumed electricity, steam, heating, or cooling purchased or acquired by a reporting entity, regardless of location.
- (5) “Scope 3 emissions” means indirect upstream and downstream greenhouse gas emissions, other than scope 2 emissions, from sources that the reporting entity does not own or directly control and may include, but are not limited to, purchased goods and services, business travel, employee commutes, and processing and use of sold products.

(c) (1) On or before January 1, 2025, the state board shall develop and adopt regulations to require a reporting entity to annually disclose to the emissions reporting organization, and obtain an assurance engagement performed by an independent third-party assurance provider on all of the reporting entity's scope 1 emissions, scope 2 emissions, and scope 3 emissions. The state board shall ensure that the regulations adopted pursuant to this subdivision require all of the following:

(A) (i) (I) That a reporting entity, starting in 2026 on or by a date to be determined by the state board, and annually thereafter on or by that date, publicly disclose to the emissions reporting organization all of the reporting entity's scope 1 emissions and scope 2 emissions for the reporting entity's prior fiscal year.

(II) That a reporting entity, starting in 2027 and annually thereafter, publicly disclose its scope 3 emissions no later than 180 days after its scope 1 emissions and scope 2 emissions are publicly disclosed to the emissions reporting organization for the prior fiscal year.

(ii) A reporting entity shall, beginning in 2026, measure and report its emissions of greenhouse gases in conformance with the Greenhouse Gas Protocol standards and guidance, including the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard developed by the World Resources Institute and the World Business Council for Sustainable Development, including guidance for scope 3 emissions calculations that detail acceptable use of both primary and secondary data sources, including the use of industry average data, proxy data, and other generic data in its scope 3 emissions calculations.

(iii) (I) Starting in 2033 and every five years thereafter, the state board may survey and assess currently available greenhouse gas accounting and reporting standards. At the conclusion of this assessment the state board may adopt a globally recognized alternative accounting and reporting standard if it determines its use would more effectively further the goals of this section. This review process shall include consultation with the stakeholders identified in paragraph (4).

(II) If the state board adopts an alternative accounting and reporting standard, the state board shall develop and adopt new regulations, pursuant to paragraph (1), to ensure full conformance with the new standard and reporting of scopes 1, 2, and 3 emissions and other requirements of this section.

(iv) During 2029 the state board shall review, and on or before January 1, 2030, the state board shall update as necessary, the public disclosure deadlines established pursuant to clause (i) to evaluate trends in scope 3 emissions reporting and consider changes to the disclosure deadlines to ensure that scope 3 emissions data is disclosed to the emissions reporting organization as close in time as practicable to the deadline for reporting entities to disclose scope 1 emissions and scope 2 emissions data.

(v) The reporting timelines shall consider industry stakeholder input and shall take into account the timelines by which reporting entities typically receive scope 1, scope 2, and scope 3 emissions data, as well as the capacity for an independent assurance engagement to be performed by a third-party assurance provider.

(B) That a reporting entity's public disclosure maximizes access for consumers, investors, and other stakeholders to comprehensive and detailed greenhouse gas emissions data across scopes 1, 2, and 3 emissions, as defined by this section, and is made in a manner that is easily understandable and accessible.

(C) That a reporting entity's public disclosure includes the name of the reporting entity and any fictitious names, trade names, assumed names, and logos used by the reporting entity.

(D) (i) That the emissions reporting is structured in a way that minimizes duplication of effort and allows a reporting entity to submit to the emissions reporting organization reports prepared to meet other national and international reporting requirements, including any reports required by the federal government, as long as those reports satisfy all of the requirements of this section.

(ii) Reporting entities that are required to report mandatory industrial emissions pursuant to regulations adopted pursuant to Section 38530 may provide that data with the disclosure required pursuant to this section.

(E) That a reporting entity's disclosure takes into account acquisitions, divestments, mergers, and other structural changes that can affect the greenhouse gas emissions reporting, and is disclosed in a manner consistent with the Greenhouse Gas Protocol standards and guidance or an alternative standard, if one is adopted after 2033.

(F) (i) That a reporting entity obtains an assurance engagement, performed by an independent third-party assurance provider, of their public disclosure. The reporting entity shall ensure that a copy of the complete assurance provider's report on the greenhouse gas emissions inventory, including the name of the third-party assurance provider, is provided to the emissions reporting organization as part of or in connection with the reporting entity's public disclosure.

(ii) The assurance engagement for scope 1 emissions and scope 2 emissions shall be performed at a limited assurance level beginning in 2026 and at a reasonable assurance level beginning in 2030.

(iii) During 2026, the state board shall review and evaluate trends in third-party assurance requirements for scope 3 emissions. On or before January 1, 2027, the state board may establish an assurance requirement for third-party assurance engagements of scope 3 emissions. The assurance engagement for scope 3 emissions shall be performed at a limited assurance level beginning in 2030.

(iv) A third-party assurance provider shall have significant experience in measuring, analyzing, reporting, or attesting to the emission of greenhouse gasses and sufficient competence and capabilities necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. The assurance provider shall be able to issue reports that are appropriate under the circumstances and independent with respect to the reporting entity, and any of the reporting entity's affiliates for which it is providing the assurance report. During 2029 the state board shall review and, on or before January 1, 2030, shall update as necessary, the qualifications for third-party assurance providers based on an evaluation of trends in education relating to the emission of greenhouse gases and the qualifications of third-party assurance providers.

(v) The state board shall ensure that the assurance process minimizes the need for reporting entities to engage multiple assurance providers and ensures sufficient assurance provider capacity, as well as timely reporting implementation as required under clause (i) of subparagraph (A).

(G) (i) That a reporting entity, upon filing its disclosure, shall pay an annual fee to the state board for the administration and implementation of this section.

(ii) The state board shall set the fee established pursuant to clause (i) in an amount sufficient to cover the state board's full costs of administrating and implementing this section. The total amount of fees collected shall not exceed the state board's actual and reasonable costs to administer and implement this section.

(iii) The proceeds of the fees imposed pursuant to clause (i) shall be deposited in the Climate Accountability and Emissions Disclosure Fund, which is hereby created in the State Treasury. Notwithstanding Section 13340 of the Government Code, the money in the fund is continuously appropriated to the state board and shall be expended by the state board for the state board's activities pursuant to this section and to reimburse

any outstanding loans made from other funds used to finance the initial costs of the state board's activities pursuant to this section. Moneys in the fund shall not be expended for any purpose not enumerated in this section.

(iv) The state board may adjust the fee in any year to reflect changes in the California Consumer Price Index during the prior year.

(2) The state board shall contract with an emissions reporting organization to develop a reporting program to receive and make publicly available disclosures required by this section pursuant to paragraph (1).

(3) The state board may adopt or update any other regulations that it deems necessary and appropriate to implement this section.

(4) In developing the regulations required pursuant to this subdivision, the state board shall consult with all of the following:

(A) The Attorney General.

(B) Other government stakeholders, including, but not limited to, experts in climate science and corporate carbon emissions accounting and reporting.

(C) Investors.

(D) Stakeholders representing consumer and environmental justice interests.

(E) Reporting entities that have demonstrated leadership in full-scope greenhouse gas emissions accounting and public disclosure and greenhouse gas emissions reductions

(5) This section does not require additional reporting of emissions of greenhouse gases beyond the reporting of scope 1 emissions, scope 2 emissions, and scope 3 emissions required pursuant to the Greenhouse Gas Protocol standards and guidance or an alternative standard, if one is adopted after 2033.

(d) (1) On or before July 1, 2027, the state board shall contract with the University of California, the California State University, a national laboratory, or another equivalent academic institution to prepare a report on the public disclosures made by reporting entities to the emissions reporting organization pursuant to subdivision (c) and the regulations adopted by the state board pursuant to that subdivision. In preparing the report, consideration shall be given to, at a minimum, greenhouse gas emissions from reporting entities in the context of state greenhouse gas emissions reduction and climate goals. The entity preparing the report shall not require reporting entities to report any information beyond what is required pursuant to subdivision (c) or the regulations adopted by the state board pursuant to that subdivision.

(2) The state board shall submit the report required by this subdivision to the emissions reporting organization to be made publicly available on the digital platform required to be created by the emissions reporting organization pursuant to subdivision (e).

(e) (1) (A) The emissions reporting organization, on or before the date determined by the state board pursuant to clause (i) of subparagraph (A) of paragraph (1) of subdivision (c), shall create a digital platform, which shall be accessible to the public, that will feature the emissions data of reporting entities in conformance with the regulations adopted by the state board pursuant to subdivision (c) and the report prepared for the state board pursuant to subdivision (d). The emissions reporting organization shall make the reporting entities' disclosures and the state board's report available on the digital platform within 30 days of receipt.

(B) The digital platform shall be capable of featuring individual reporting entity disclosures, and shall allow consumers, investors, and other stakeholders to view reported data elements aggregated in a variety of ways, including multiyear data, in a manner that is easily understandable and accessible to residents of the state. All data sets and customized views shall be available in electronic format for access and use by the public.

(2) The emissions reporting organization shall submit, within 30 days of receipt, the report prepared for the state board pursuant to subdivision (d) to the relevant policy committees of the Legislature.

(f) (1) Section 38580 does not apply to a violation of this section.

(2) (A) The state board shall adopt regulations that authorize it to seek administrative penalties for nonfiling, late filing, or other failure to meet the requirements of this section. The administrative penalties authorized by this section shall be imposed and recovered by the state board in administrative hearings conducted pursuant to Article 3 (commencing with Section 60065.1) and Article 4 (commencing with Section 60075.1) of Subchapter 1.25 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations. The administrative penalties imposed on a reporting entity shall not exceed five hundred thousand dollars (\$500,000) in a reporting year. In imposing penalties for a violation of this section, the state board shall consider all relevant circumstances, including both of the following:

(i) The violator's past and present compliance with this section.

(ii) Whether the violator took good faith measures to comply with this section and when those measures were taken

(B) A reporting entity shall not be subject to an administrative penalty under this section for any misstatements with regard to scope 3 emissions disclosures made with a reasonable basis and disclosed in good faith.

(C) Penalties assessed on scope 3 reporting, between 2027 and 2030, shall only occur for nonfiling.

(g) This section applies to the University of California only to the extent that the Regents of the University of California, by resolution, make any of these provisions applicable to the university.

(h) The provisions of this section are severable. If any provision of this section or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

Senate Bill No. 261

CHAPTER 383

An act to add Section 38533 to the Health and Safety Code, relating to greenhouse gases, and making an appropriation therefor.

[Approved by Governor October 07, 2023. Filed with Secretary of State October 07, 2023.]

LEGISLATIVE COUNSEL'S DIGEST

SB 261, Stern. Greenhouse gases: climate-related financial risk.

The California Global Warming Solutions Act of 2006 requires the State Air Resources Board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the act. The act requires the state board to make available, and update at least annually, on its internet website the emissions of greenhouse gases, criteria pollutants, and toxic air contaminants for each facility that reports to the state board, as provided.

This bill would require, on or before January 1, 2026, and biennially thereafter, a covered entity, as defined, to prepare a climate-related financial risk report disclosing the entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk. The bill would require the covered entity to make a copy of the report available to the public on its own internet website.

The bill would require the state board to contract with a climate reporting organization, as defined, to biennially prepare a public report that contains specified information, including a review of the disclosure of climate-related financial risk contained in a subset of publicly available climate-related financial risk reports and an analysis of the systemic and sectorwide climate-related financial risks facing the state. The bill would require the state board to adopt regulations that authorize it to seek administrative penalties from covered entities for failing to make the report publicly available on its internet website or publishing an inadequate or insufficient report, as specified.

The bill would require covered entities to pay an annual fee for the state board's actual and reasonable costs to administer and implement the bill. The bill would create the Climate-Related Financial Risk Disclosure Fund, require the proceeds of the fees to be deposited in the fund, and continuously appropriate the moneys in the fund to the state board for purposes of the bill. By creating a continuously appropriated fund, the bill would make an appropriation.

DIGEST KEY

Vote: majority Appropriation: yes Fiscal Committee: yes Local Program: no BILL TEXT

BILL TEXT

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

- (a) Climate change is affecting California's communities and economy with impacts including wildfires, sea level rise, extreme weather events, extreme droughts, and associated impacts to the global economy.
- (b) Global economic and climate policy leaders have conclusively established that the long-term strength of global and local economies will depend on their ability to withstand climate-related risks, including physical impacts, economic transitions, and policy and legal responses.
- (c) Failure of economic actors to adequately plan for and adapt to climate-related risks to their businesses and to the economy will result in significant harm to California, residents, and investors, in particular to financially vulnerable Californians who are employed by, live in communities reliant on, or have invested in or obtained financing from these institutions.
- (d) California is a global leader in addressing climate risk through state policy, as demonstrated by the requirement for state public pension funds to analyze and report material climate-related financial risks, as required by Section 7510.5 of the Government Code, and the state climate investment framework directed by, and Climate-Related Risk Disclosure Advisory Group established in accordance with, Executive Order No. N-19-19.
- (e) Leading voluntary initiatives have begun to develop frameworks for disclosure of climate change- and sustainability-related information. Thousands of companies already disclose their climate-related financial risks.
- (f) Other jurisdictions have begun to require certain entities to develop and disclose sustainability policies, including public entities, as required by the State of Illinois' Sustainable Investing Act (PA 101-473), and both public and private entities, as required by France's Energy Transition Law, as set forth in Article 173-VI for institutional investors and Article 173-IV for companies.

(g) On May 20, 2021, President Joseph Biden signed Executive Order 14030, Climate-Related Financial Risk, which directs federal agencies to develop a comprehensive, governmentwide strategy regarding the measurement, assessment, mitigation, and disclosure of climate-related financial risk to federal government programs, assets, and liabilities in order to increase the long-term stability of federal operations.

(h) On March 21, 2022, the United States Securities and Exchange Commission (SEC) proposed a rule that would require publicly traded United States companies to include climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to those risks.

(i) On April 8, 2022, the National Association of Insurance Commissioners, which includes California's Insurance Commissioner, adopted a new standard for insurance companies to report their climate-related risks, in alignment with the internationally recognized Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD standard is the international benchmark for climate risk disclosure and will help insurance regulators and the public better understand the climate-related risks to the United States insurance market, which is the largest in the world.

(j) Though a precedent has been set to address climate risk to businesses, corporations, and financial institutions nationwide, current disclosure standards are voluntary, and thus inadequate, for meeting rapidly accelerating climate risks. In order to begin to address the climate crisis, consistent, higher level, and mandatory disclosures are needed from all major economic actors, and California has an opportunity to set mandatory and comprehensive risk disclosure requirements for public and private entities to ensure a sustainable, resilient, and prosperous future for our state.

SEC. 2. Section 38533 is added to the Health and Safety Code, to read:

38533. (a) For purposes of this section, the following definitions apply:

(1) "Climate reporting organization" means a nonprofit climate reporting organization contracted by the state board pursuant to paragraph (2) of subdivision (b) that both:

(A) Currently operates a climate reporting organization for organizations operating in the United States.

(B) Has experience with climate-related financial risk disclosure by entities operating in California.

(2) "Climate-related financial risk" means material risk of harm to immediate and long-term financial outcomes due to physical and transition risks, including, but not limited to, risks to corporate operations, provision of goods and services, supply chains, employee health and safety, capital and financial investments, institutional investments, financial standing of loan recipients and borrowers, shareholder value, consumer demand, and financial markets and economic health.

(3) "Climate-related financial risk report" means a report required by subdivision (b).

(4) "Covered entity" means a corporation, partnership, limited liability company, or other business entity formed under the laws of the state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States with total annual revenues in excess of five hundred million United States dollars (\$500,000,000) and that does business in California. Applicability shall be determined based on the business entity's revenue for the prior fiscal year. "Covered entity" does not include a business entity that is subject to regulation by the Department of Insurance in this state, or that is in the business of insurance in any other state.

(b) (1) (A) On or before January 1, 2026, and biennially thereafter, a covered entity shall prepare a climate-related financial risk report disclosing both of the following:

(i) Its climate-related financial risk, in accordance with the recommended framework and disclosures contained in the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) published by the Task Force on Climate-related Financial Disclosures, or any successor thereto, or pursuant to an equivalent reporting requirement as described in paragraph (4).

(ii) Its measures adopted to reduce and adapt to climate-related financial risk disclosed pursuant to clause (i).

(B) If a covered entity does not complete a report consistent with all required disclosures pursuant to clause (i) of subparagraph (A), the covered entity shall provide the recommended disclosures to the best of its ability, provide a detailed explanation for any reporting gaps, and describe steps the covered entity will take to prepare complete disclosures

(2) Climate-related financial risk reports may be consolidated at the parent company level. If a subsidiary of a parent company qualifies as a covered entity pursuant to paragraph (4) of subdivision (a), the subsidiary is not required to prepare a separate climate-related financial risk report.

(3) The state board shall contract with a climate reporting organization to prepare a biennial public report on the climate-related financial risk disclosures required by this section.

(4) Notwithstanding paragraph (1), a covered entity satisfies the requirements of paragraph (1) if it prepares a publicly accessible biennial report that includes climate-related financial risk disclosure information by any of the following methods:

(A) Pursuant to a law, regulation, or listing requirement issued by any regulated exchange, national government, or other governmental entity, including a law or regulation issued by the United States government, incorporating disclosure requirements consistent with clause (i) of subparagraph (A) of paragraph (1), including the International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board.

(B) Voluntarily using a framework that meets the requirements of clause (i) of subparagraph (A) of paragraph (1) or the International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board.

(5) To the extent a climate-related financial risk report contains a description of a covered entity's greenhouse gases or voluntary mitigation of greenhouse gases, the state board may consider covered entity's claims if those claims are verified by a third-party independent verifier.

(c) (1) On or before January 1, 2026, and biennially thereafter, a covered entity shall make available to the public, on its own internet website, a copy of the report required by this section.

(2) (A) On or before January 1, 2026, and annually thereafter, a covered entity shall pay a fee, upon filing its disclosure, to the state board for the administration and implementation of this section.

(B) (i) The state board shall set the fee described in subparagraph (A) at an amount adequate to cover the state board's full costs of administering and implementing this section. The total amount of fees collected shall not exceed the state board's actual and reasonable costs to administer and implement this section.

(ii) The state board may adjust the fee in any year to reflect changes in the California Consumer Price Index during the prior year.

(C) The proceeds of the fees imposed pursuant to this paragraph shall be deposited in the Climate-Related Financial Risk Disclosure Fund, which is hereby created in the State Treasury. Notwithstanding Section 13340 of the Government Code, the money in the fund is continuously appropriated to the state board and shall be expended by the state board for the state board's activities pursuant to this section and to reimburse any outstanding loans made from other funds used to finance the initial costs of the state board's activities pursuant to this section. Money in the fund shall not be expended for any other purpose not described in this subparagraph.

(d) The climate reporting organization shall be contracted to do all of the following:

(1) Biennially prepare a public report that contains all of the following elements:

(A) A review of the disclosure of climate-related financial risk contained in a subset of publicly available climate-related financial risk reports by industry.

(B) Analysis of the systemic and sectorwide climate-related financial risks facing the state based on the contents of climate-related financial risk reports, including, but not limited to, potential impacts on economically vulnerable communities.

(C) Identification of inadequate or insufficient reports.

(2) Regularly convene representatives of sectors responsible for reporting climate-related financial risks, state agencies responsible for oversight of reporting sectors, investment managers, academic experts, standard-setting organizations, climate and corporate sustainability organizations, labor union representatives whose members work in impacted sectors, and other stakeholders to offer input on current best practices regarding the disclosure of financial risks resulting from climate change, including, but not limited to, proposals to update the definition of "climate-related financial risk," and the framework or disclosure standard of "climate-related financial risk reports" that meets the requirements of clause (i) of subparagraph (A) of paragraph (1) of subdivision (b).

(3) Monitor federal regulatory actions among agency members of the federal Financial Stability Oversight Council, as well as nonindependent regulators overseen by the White House.

(e) (1) Section 38580 does not apply to a violation of this section.

(2) The state board shall adopt regulations that authorize it to seek administrative penalties from a covered entity that fails to make the report required by this section publicly available on its internet website or publishes an inadequate or insufficient report. The administrative penalties authorized by this section shall be imposed and recovered by the state board in administrative hearings conducted pursuant to Article 3 (commencing with Section 60065.1) and Article 4 (commencing with Section 60075.1) of Subchapter 1.25 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations. The administrative penalties imposed on a reporting entity shall not exceed fifty thousand dollars (\$50,000) in a reporting year. In imposing penalties for a violation of this section, the state board shall consider all relevant circumstances, including both of the following:

(A) The violator's past and present compliance with this section.

(B) Whether the violator took good faith measures to comply with this section and when those measures were taken.