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New California Legislation Creates Climate Disclosure and Reporting Requirements

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On October 7, California Gov. Gavin Newsom signed three new bills into law mandating disclosures and reporting related to greenhouse gas emissions, climate risks, and emissions reductions claims.

Here, we discuss the three bills and implications for companies doing business in California.

Climate Corporate Data Accountability Act

The first of the bills, **SB 253**, is titled the Climate Corporate Data Accountability Act (CCDAA). Starting 2026, the CCDAA will require companies doing business in California with more than $1 billion in annual revenue in the prior fiscal year to disclose Scope 1, 2, and 3 emissions in accordance with regulations required to be published by the California Air Resources Board (CARB).

- ***Scope 1 emissions*** include "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."
- ***Scope 2 emissions*** are "indirect greenhouse gas emissions from consumed electricity, steam, heating, or cooling purchased or acquired by a reporting entity, regardless of location."
- ***Scope 3 emissions*** are "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."

The law requires covered companies to publicly disclose Scope 1 and 2 emissions starting in 2026 and Scope 3 emissions in 2027. The law also requires third-party assurance of the emissions disclosures. Specifically, Scope 1 and 2 emissions disclosures will require limited assurance, beginning in 2026, then reasonable assurance in 2030. For Scope 3 disclosures, limited assurance will begin in 2030. The law requires CARB to work with an emissions-reporting organization to develop a reporting program to receive the disclosures and make them publicly available.

The CCDAA authorizes CARB to bring civil actions and seek civil penalties for violations of the act, with a maximum fine of $500,000. However, through 2030, a company is only subject to penalties related to its Scope 3 reporting if it does not file anything. Afterwards, an entity cannot be subject to penalties if its Scope 3 disclosures were made in good faith and with a reasonable basis.

California defines "**doing business**" in the state broadly. The Assembly and Senate Floor Analyses estimate that the CCDAA **will cover 5,344 entities**. CARB must promulgate implementing regulations by January 1, 2025. The law also provides CARB with significant discretion and flexibility to adjust implementation details over time.

Climate-Related Financial Risk Act

The second bill, **S.B. 261**, is the Climate-Related Financial Risk Act (CRFRA). On or before January 1, 2026 (and every two years thereafter), companies doing business in California with more than $500 million in annual revenue based on the prior fiscal year will be required to report climate-related financial risks, in addition to measures used to mitigate these risks, under the Task Force on Climate-Related Financial Disclosures (TCFD) framework or an equivalent framework. Covered companies must make the biennial reports publicly available on their websites. The bill also requires CARB to work with a non-profit climate reporting organization to prepare a biennial public report on the climate-related financial risk disclosures and identify any inadequate or insufficient reports. Covered entities that the state board finds to be in violation of the CRFRA will be subject to administrative penalties of up to $50,000 in a reporting year.

Similar to the CCDAA, CRFRA applies to corporations,

partnerships, and limited liability companies. However, insurance companies are exempt from the law.

The law defines climate-related financial risk to mean “material risk of harm to immediate and long-term financial outcomes due to physical and transition risks…” These risks include, but are 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.”

Climate-Related Financial Risk Act

Effective January 1, 2024, the third bill, **AB 1305**, or the Voluntary Carbon Market Disclosures Act (VCMDA), will require companies that operate in California and make net-zero, carbon-neutral, or significant emissions reductions claims to document their accuracy and means of achieving these goals on their websites. The disclosures must include all information regarding how a “carbon neutral,” “net zero emission,” or other claim was determined to be accurate or accomplished, how interim progress toward that goal is being measured, and whether company data and claims listed have been verified by an independent third party.

Additional disclosure requirements apply if a company purchases or uses voluntary carbon offsets within California for these claims, including the following information:

- The name of the offset seller and registry, and project name or identification number on the registry;
- The offset project type and site location;
- The specific protocol used to estimate emissions reductions or

- removal benefits; and
- Whether company data and claims have been verified by an independent third party.

In addition, a company that markets or sells voluntary carbon offsets will be required to disclose the following:

- The specific protocol used to estimate project benefits;
- Dates when emissions reductions or removals started, or will start, and calculated quantities of emissions, including any information about project reversals or modifications to quantities or start dates;
- The type and location of the project;
- Whether the project meets any standards established by law or by a non-profit entity;
- The durability period for any project benefit that the seller knows or should know is less than the atmospheric lifetime of carbon dioxide emissions;
- Whether project attributes have been independently verified; and
- Emissions reduced or carbon removed on an annual basis.

The law requires that these disclosures be updated annually. The VCMDA’s violations carry civil penalties of $2,500 per day up to a maximum of $500,000, recoverable in a civil action by the state Attorney General, a district or city attorney, or county counsel.

Notably, these disclosure requirements apply to any entity operating in California that makes these claims or markets, sells, purchases, or uses voluntary carbon offsets regardless of size, which is broader than the reach of the other two bills.

Takeaways

These three new bills create significant new disclosure and reporting obligations related to greenhouse gas emissions and climate risks, claims, goals, and offsets that will apply to many US and international companies operating in California. These laws also likely represent the first required climate-related disclosures for many US companies. While future CARB regulations are likely to provide further guidance on how to comply with the new reporting and disclosure requirements, companies operating in California should carefully consider whether these new laws apply to them and begin gathering the necessary data and a gameplan for compliance.

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