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Navigating Compliance with California's Climate Disclosure Laws

September 10, 2025

On August 21, 2025, the California Air Resources Board (CARB) held its second virtual public workshop to provide information regarding implementation of SB 253 (the Climate Corporate Data Accountability Act) and SB 261 (the Climate-Related Financial Risk Act), both as amended by SB 219.

In addition to the August workshop, CARB's public engagement on SB 253 and SB 261 has included an initial virtual public workshop on May 29, 2025, FAQs posted by CARB on July 9, 2025 relating to the regulatory development of these programs and information regarding submittal of initial reports, and most recently, a Climate Related Financial Risk Disclosures Draft Checklist for compliance with SB 261, posted on September 2, 2025.

Refresher: SB 253 and 261

As previously reported in greater detail (here, here and here), **SB 253** (the Climate Corporate Data Accountability Act) requires U.S.-based entities doing business in California with over $1 billion in annual revenue to publicly disclose their Scope 1, 2 and 3 greenhouse gas (GHG) emissions. **SB 261** (the Climate-Related Financial Risk Act) requires U.S.-based entities doing business in California with over $500 million in annual revenue to prepare biennial reports describing their climate-related financial risks and the measures taken to mitigate them, in line with global reporting frameworks. **SB 219** amended SB 253 and SB 261 and, among other things, clarified that CARB would set the schedule for Scope 3 GHG emissions disclosures for some time in 2027 and that disclosures could be consolidated at the parent company level.

Who is Covered?

The question of which entities are covered under these laws is still being determined. CARB's August workshop did not offer finality on key definitions that would clarify the scope of applicability:

"Doing Business in California" - CARB is still deciding which definition of "doing business in California" to adopt. During the May public workshop, CARB proposed to use the definition of doing business under Cal. Rev. and Tax Code § 23101:

*Actively engaging in any transaction for the purpose of financial or pecuniary gain or profit **and** any of the following conditions is met during any part of a reporting year:*

(1) The entity is organized or commercially domiciled in this state.

(2) The real property and tangible personal property of the entity in this state exceed the lesser of $73,502 (2024) or 25% of the entity's real property and tangible personal property.

(3) The amount paid in this state by the entity for compensation exceeds $73,502 (2024) or 25% percent of the total compensation paid by the entity.

(4) Sales...of the entity in this state exceed $735,019 (2024).

During the August workshop, CARB proposed a narrower definition:

*Actively engaging in any transaction for the purpose of financial or pecuniary gain or profit **and** any of the following conditions is met during any part of a reporting year:*

(1) The entity is organized or commercially domiciled in this state.

(2) Sales...of the entity in this state exceed $735,019 (2024).

CARB plans to put out a list by the end of September of potential companies that would be covered by this definition. However, CARB noted that non-inclusion on the list will not be dispositive of whether an entity is subject to the laws.

Proposed Exemptions – CARB proposed that the following entities would not be considered to be "doing business in California":

- Non-profits
- Companies whose only California business is teleworking employees
- Government entities
- CA Independent System Operators (CAISO) and entities whose only California activity is wholesale electricity transactions in interstate commerce

"Revenue" - At the May workshop, CARB had proposed defining total annual revenue as "gross receipts" as defined under the California Revenue and Taxation Code §25120(f)(2). However, at the August workshop, CARB proposed the following alternative definition: *Revenue is the total global amount of money or sales a company receives from its business activities, such as selling products or providing services.*

This narrower definition does not deduct operating costs or other business expenses and is consistent with metrics used by major data tracking and reporting industries, like the S&P and Dunn & Bradstreet.

Parent and Subsidiary

Consistent with the May workshop, CARB proposed defining a parent and subsidiary relationship (for purposes of determining when entities can consolidate reporting) based on California's existing Cap-and-Trade regulation:

[A] [s] ubsidiary is a business in which another company (the parent or holding company) owns more than 50% of its voting stock. A subsidiary has a different legal business name than its parent company. This corporate relationship implies that the parent company has a controlling interest and can influence the subsidiary's operations, management and financial decisions, even though the subsidiary operates as a separate legal entity.

CARB clarified that if a subsidiary qualifies as a covered entity for purposes of SB 261 and the parent company is submitting a consolidated report, the subsidiary does not need to break out its own climate-related financial risk information separately.

Fees

At the August workshop, CARB recommended a flat fee per regulated entity, resulting in one fee for compliance with SB 253 and one fee for SB 261. The fee would be calculated based on the annual program cost divided by the total number of entities covered by the rule, plus a one-time start-up cost.

Based on its preliminary estimate of the total number of covered entities, CARB calculated the following annual fees:[1] $3,106 for SB 253 and $1,403 for SB 261.

Subsidiaries filing consolidated reports with the parent company would be considered a separate entity and subject to a separate fee.

CARB's Draft Timeline

- **August 21–September 11, 2025:** Public comment period for feedback on the concepts presented at the workshop
- **October 14, 2025:** CARB will issue notice of proposed rulemaking
- **October 17–November 30, 2025:** 45-day comment period pursuant to California's Administrative Procedures Act
- **December 11–12, 2025:** CARB Board Hearing to consider adoption of the proposed rulemaking

Compliance Deadlines and Logistics

Despite the lack of final rulemaking, the current deadlines under the laws remain in effect. Specifically:

SB 253 (GHG Emissions Reporting)

Companies must submit Scope 1 and Scope 2 GHG emissions data to CARB **by June 30, 2026**. CARB will release draft reporting templates for public comment by the end of September 2025, providing a preview of the required format and content.

Data Assurance Data submitted to comply with SB 253 is required to undergo independent, systematic, and documented assurance. "Limited Assurance" — the lowest level of assurance — is the assurance level required for Scope 1 and 2 GHG reporting due in 2026. This means the assurance provider must not find any material misstatements but is not required to perform exhaustive checks. It is still unclear whether the limited assurance is required to be submitted at the same time the initial GHG emissions report is submitted.

Of note, The Climate Corporate Data Accountability Act Enforcement Notice Dec 2024 published by CARB on December 5, 2024, made clear that CARB will not take enforcement action for incomplete reporting under SB 253 for the first reporting cycle, so long as the entities demonstrate a good faith effort to comply.

SB 261 (Climate Risk Reporting)

Companies must post climate risk reports on their websites by **January 1, 2026,** and every two years thereafter. However, the official CARB "docket" for submissions and notifications will remain open until **July 1, 2026**, with the submission window opening December 1, 2025.

These reports can use one of a number of frameworks, including: the 2017 Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); the International Financial Reporting Standards (IFRS) Disclosure Standards issued by the International Sustainability Standards Board (IFRS S2); or a report developed in accordance with any regulated exchange, national government, or other governmental entity.

Regardless of the format, the report submitted to CARB must include a statement specifying the framework used, identify which recommendations and disclosures have been addressed, briefly explain any omissions and discuss any plans for future disclosures.

Of note, while the language of SB 261 only requires reporting on material climate-related financial risks (corresponding to the strategy pillar of TCFD), CARB appears to be expecting covered entities to report on all of the principles of TCFD and IFRS 2, including governance, risk management and the metrics and targets used to assess and manage climate-related risks and opportunities.

Federal Litigation Update

Litigation brought by the Chamber of Commerce of the United States and others challenging the constitutionality of SB 253 and SB 261 remains ongoing. Notably, on August 13, 2025, the federal district court for the Central District of California denied plaintiffs' motion for a preliminary injunction, which would have put the enforcement of SB 253 and 261 on hold. The court found that plaintiffs' First Amendment challenge was unlikely to succeed on the merits, stating that the State's interest in providing reliable information to investors would likely pass the level of scrutiny the court would use to examine the laws. Plaintiffs promptly appealed to the Ninth Circuit, and moved for an injunction barring the implementation and enforcement of the laws pending the appeal. In the meantime, the laws are not stayed and remain in effect.

Recommended Next Steps

With deadlines approaching and regulatory details still evolving, to ensure compliance with SB 253 and SB 261, entities should:

- Assess whether they are likely to be covered under SB 253 and/or SB 261;
- Gather relevant GHG emissions and climate risk data required to be reported based on fiscal year 2025, or, if not available, from prior years, using the most recent and best available data for the first report;
- Select a reporting framework and limited assurance provider;
- Provide public comment where appropriate during the open comment periods; and
- Continue to monitor developments concerning CARB's final rulemaking.

We will continue to update you on material developments as they unfold.

[1] Annual fees would be adjusted for inflation and fund deficit/surplus in future years.

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