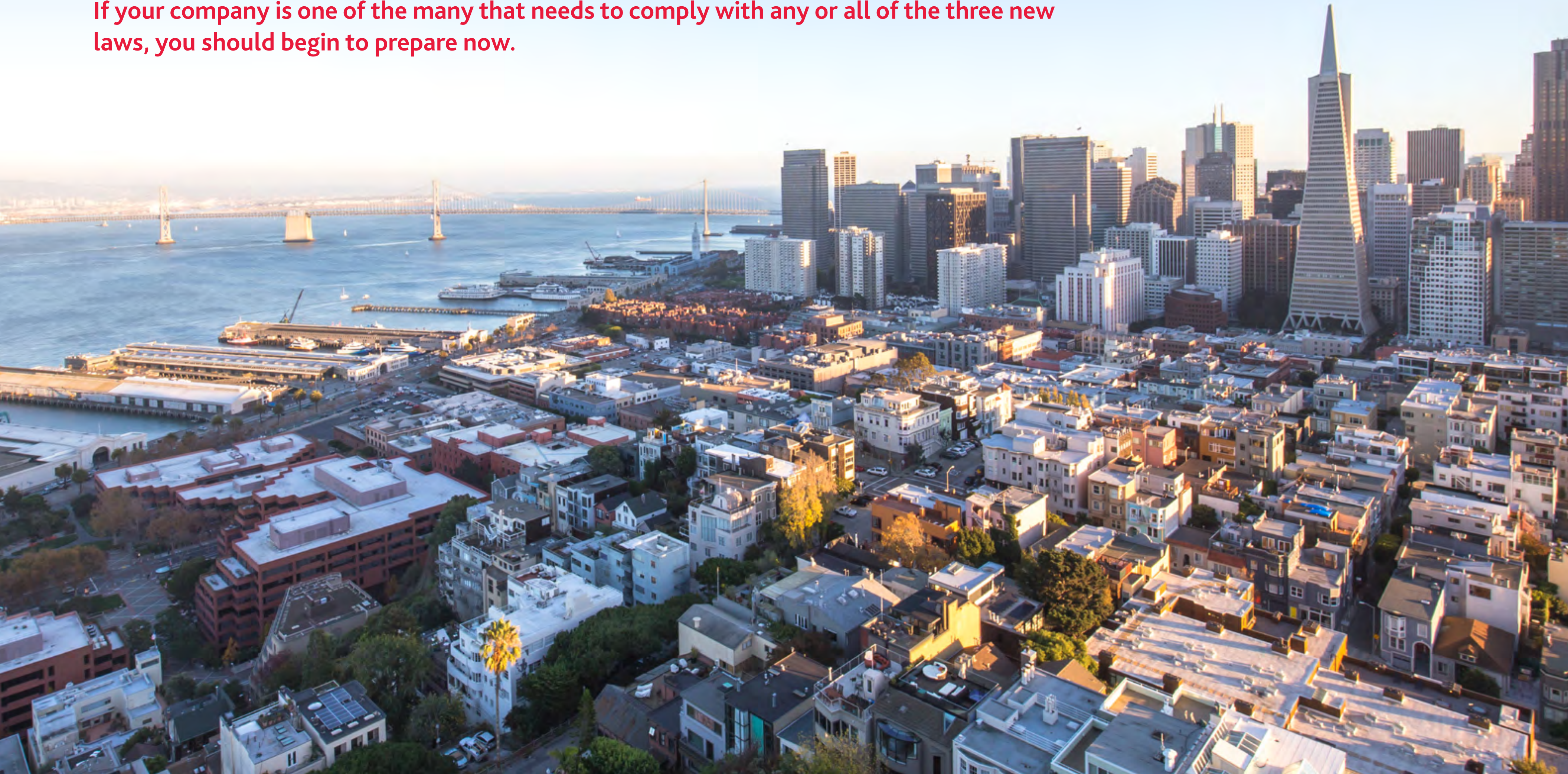
Prepare Now:

California Climate Laws Impact Thousands of Businesses

California's slew of new climate reporting laws will require thousands of public and private companies to disclose details like their Scope 3 emissions, climate risks and use of voluntary carbon offsets.

If companies impacted by these laws want to keep doing business in California — a $3.6 trillion economy — without paying penalties, they'll have to meet reporting requirements for some or all of the state's three new climate disclosure laws.

If your company is one of the many that needs to comply with any or all of the three new laws, you should begin to prepare now.



Emissions and Climate Risk Reporting

Two of California's climate reporting laws, the Climate Corporate Data Accountability Act (SB 253) and Greenhouse Gases: Climate-Related Financial Risk (SB 261), apply to large companies that do business in the state and exceed certain revenue requirements.

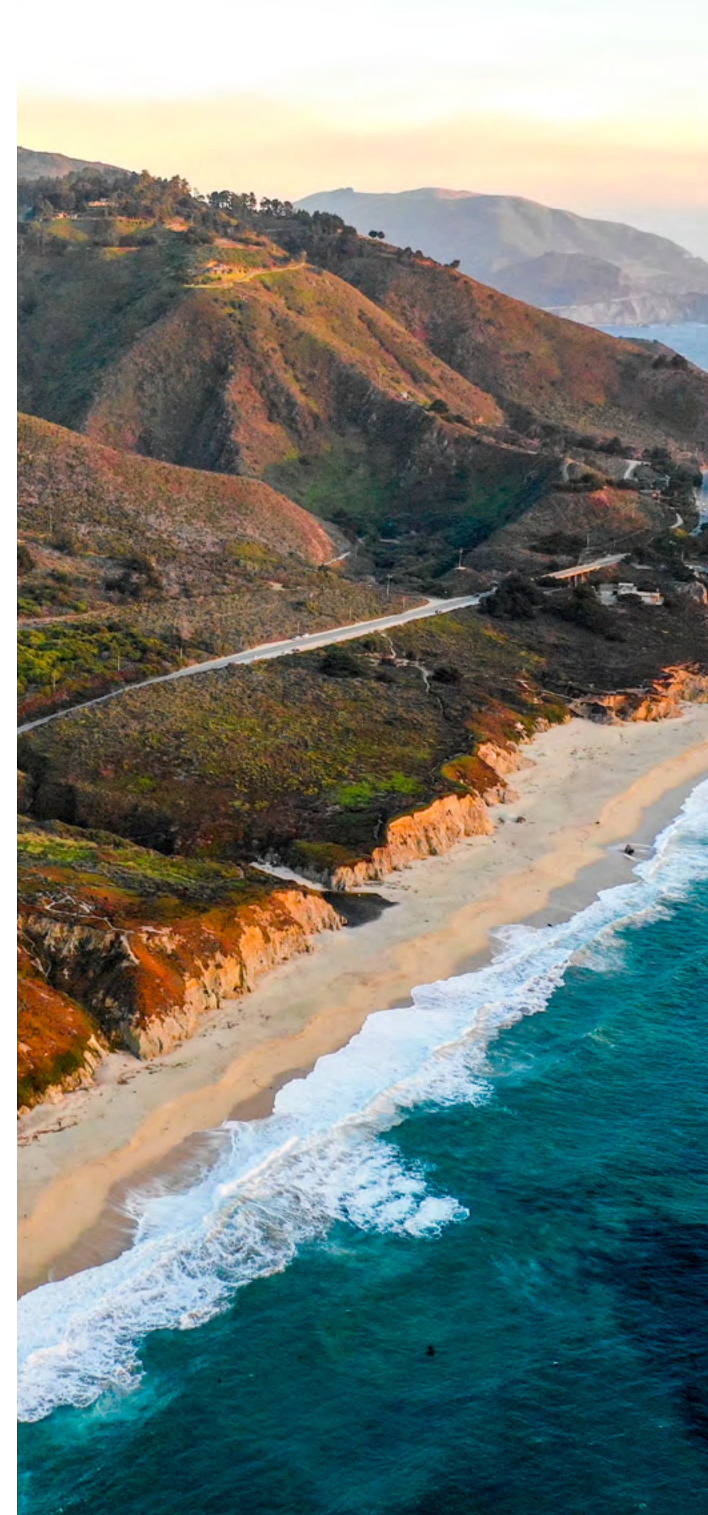
SB 253 requires companies to disclose their Scope 1, 2 and 3 emissions and to obtain independent third-party assurance of their data. SB 261 requires companies to publish climate-related financial risk reports.

Reporting under both laws is set to begin in 2026, and as the state moves toward implementation, some details and deadlines may be updated. Current requirements of 253 and 261 are summarized to the right.

Emissions Reporting (SB 253)			
Applies To[1,2]	Public and private U.S. companies with total annual revenues > $1 billion and that do business in California		
Disclosure Highlights	▶ Report Scope 1, 2 and 3 emissions data ▶ Calculate data in accordance with the Greenhouse Gas Protocol standards and guidance ▶ Obtain independent third-party assurance of all emissions data		
Reporting Frequency	Annual		
Disclosure Process	Companies must submit data to a publicly available database managed and overseen by an organization contracted by the state		
Noncompliance Penalties	Up to $500,000		
	Scope 1 Reporting	**Scope 2 Reporting**	**Scope 3 Reporting**
First Report Due	2026[3] (2025 Data)	2026[3] (2025 Data)	2027[4] (2026 Data)
Assurance Effective Date	▶ Limited: 2026 (2025 Data) ▶ Reasonable: 2030 (2029 Data)	▶ Limited: 2026 (2025 Data) ▶ Reasonable: 2030 (2029 Data)	▶ Limited[5]: 2030 (2029 Data)

1 The law defines a reporting entity as a partnership, corporation, limited liability company or other business entity formed under the laws of California, the laws of any other U.S. state or the District of Columbia, or under an act of U.S. Congress, with total annual revenues of more than $1 billion and that does business in California.
2 The laws do not clarify what it means to 'do business' in California. This will be established by the California Air Resources Board (CARB) as it develops regulations to carry out the laws. Criteria could potentially align with amounts set by the California Franchise Tax Board.
3 CARB will determine an exact date. Reporting period covers previous fiscal year.
4 No later than 180 days after Scope 1 and 2 reporting deadline. Reporting period covers previous fiscal year.
5 CARB may establish an assurance requirement for third-party assurance engagements of Scope 3 by Jan. 1, 2027.

Climate-Related Financial Risk Reporting (SB 261)	
Applies To[2, 6]	Public and private U.S. companies with total annual revenues > $500 million and that do business in California
Disclosure Highlights	Climate-related financial risk reports that: ▶ Align with the Task Force on Climate-related Financial Disclosures (TCFD) framework or equivalent reporting under another law, regulation, listing requirement or standard ▶ Include companies' measures to mitigate and adapt to the disclosed risks ▶ Identify disclosure gaps or omissions and outline efforts for more complete future disclosures
Reporting Frequency	Every two years
Disclosure Process	Companies must publish reports on their websites
Noncompliance Penalties	Up to $50,000
First Report Due	Jan. 1, 2026



6 The law defines a covered entity as a corporation, partnership, limited liability company or other business entity formed under the laws of California, the laws of any other U.S. state or the District of Columbia, or under an act of U.S. Congress, with total annual revenues of more than $500 million and that does business in California. Insurance entities are excluded due to TCFD reporting requirements through the National Association of Insurance Commissioners.

Voluntary Carbon Offsets and "Net Zero" Claims

The third law, Voluntary Carbon Market Disclosures (AB 1305), increases transparency around voluntary carbon offsets.

Some portions of AB 1305 apply only to companies that market or sell voluntary offsets in California. However, several of its requirements apply to companies that purchase these offsets or claim that their business or product does not add net carbon dioxide or greenhouse gas emissions to the atmosphere — a status often referred to as "net zero" or "carbon neutral."

Voluntary Carbon Market Disclosures (AB 1305)			
Applies To	▶ Public and private companies that market or sell voluntary carbon offsets in California ▶ Public and private companies that operate in California, purchase or use voluntary carbon offsets sold within the state, and make claims about significant emissions reductions or not adding any net carbon dioxide or greenhouse gas emissions (e.g. "net zero," "carbon neutral") ▶ Public and private companies that operate in California and make claims in the state about significant emissions reductions or not adding any net carbon dioxide or greenhouse gas emissions (e.g. "net zero," "carbon neutral")		
Disclosure Highlights	▶ Companies that market or sell voluntary carbon offsets must report: • Type of project, location and timeline • Emissions reduced or carbon removed on an annual basis • Whether an independent third party validated or verified project attributes	▶ Companies that purchase or use voluntary carbon offsets and make "net zero" or similar claims must report: • Offset project name, identification number and type • Protocol used to estimate emissions reductions or removal benefits • Whether an independent third party verified data and claims	▶ Companies that make "net zero" or similar claims must report: • How claims were determined to be accurate or accomplished • How interim progress is measured • Whether an independent third party verified data and claims
Reporting Frequency	Annual		
Disclosure Process	Companies must publish disclosures on their websites		
Noncompliance Penalties	$2,500 per day for each violation — up to $500,000		
First Report Due	Jan. 1, 2024		

How to Prepare

If your company will be impacted by California's climate reporting laws, here are some steps you can take to get ready.

1 CONDUCT YOUR GAP ANALYSIS

First, evaluate your organization's existing sustainability reporting program, if one is in place. Your company may already be fulfilling some of the California laws' requirements through voluntary disclosures or other mandatory reporting.

Take inventory of any climate-related disclosures, including any TCFD and emissions reporting. Additionally, determine if your company is already obtaining assurance over some or all of your emissions data or claims. If not, determine whether processes for assurance readiness are in place.

After establishing this baseline, identify the gaps in your data, processes, controls and reporting that you will need to address to comply with California's requirements.

2 DESIGN YOUR ROADMAP

Next, formalize your plan to establish leadership, processes, controls and protocols to comply with California's laws. This will likely require a team that represents business functions across your organization. Members of your team and their roles may include:

- **Sustainability, Operations and/or Finance:** Conduct greenhouse gas inventory assessments and collate required information for disclosure, including execution of controls to validate data. Also lead coordination with a third-party assurance provider.
- **Internal Audit:** Lead efforts toward assurance readiness. Evaluate controls and processes.
- **Investor Relations and/or Communications:** Manage disclosure drafting, publication and filing.
- **Enterprise Risk Management:** Integrate the climate risk assessment into broader risk management functions.
- **Legal:** Oversee compliance and legal risk exposure.
- **IT:** Implement the necessary software for emissions data collection.

3 COLLECT AND REPORT YOUR DATA

Finally, your company will be ready to execute your roadmap.

This step may include more work to define your emission sources or other relevant climate-related information, and it may require collecting additional data. It will also require the design and/or evaluation of internal data collection controls and processes around metrics. A flowchart and risk control matrix will be helpful in this effort.

Engagement with an independent third party to obtain assurance before reporting your disclosures will also be part of this step.

Efficiencies for Future Rulemaking, Business Performance

While the initial administrative and operational demands of California's requirements may seem onerous, there are clear benefits and efficiencies. California's new disclosure requirements are ambitious, but this will likely make fulfillment of other U.S. and global climate reporting regulations easier for companies that comply. California's status as a sustainability leader also means the laws could influence legislation from other jurisdictions.

Additionally, companies can leverage the information they gather and report to create business value — rather than viewing the process as simply a compliance exercise. For example, it can help inform key risk management functions, identify business opportunities, and improve discourse with investors and other stakeholders.

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ADDITIONAL RESOURCES AND RELATED LINKS

- Preparing for the Proposed SEC Climate Disclosure Rule
- Which Level of Assurance is Best for Your ESG Reporting?
- The Path to ESG Reporting and Attestation Readiness
- The Greenhouse Gas Protocol: Measuring Scope 1, 2 and 3 Emissions
- Does the EU's Corporate Sustainability Reporting Directive (CSRD) Apply to Your Business?
- Q&A: EU Expands ESG Reporting Requirements Through the CSRD
- Sustainability Spotlight

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