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California Passes Landmark Climate Legislation

What it Means for Your Organization

By Clare Bassi, Sustainability Research Lead and Pamela Gramlich, Associate, Head of Climate and Environmental Solutions, Third Economy, October 2023

UPDATE (October 2024)

In August 2024, the California state legislature introduced SB 219, a new bill consolidating prior bills SB 253 and SB 261, and Governor Newsom signed the bill on September 30, 2024. The bill obligates large companies that do business in the state to disclose their value chain emissions and report on climate-related financial risks beginning in 2026.

*Despite some administrative delays across the summer, **California's new law introduces Scope 1, 2 and 3 emissions reporting** obligations for companies that do business in the state – the first law of its kind to be implemented for U.S. companies – beginning in 2026. Our analysis below still holds true, but some of the finer details of the legislation are best digested with our companion piece, linked here.*

Background

In October 2023, the governor of California signed two climate disclosure bills into law:

1. SB-261: Greenhouse Gases: Climate-Related Financial Risk and
2. SB-253: Climate Corporate Data Accountability Act.

Together, these bills cover similar disclosure content as anticipated under the pending SEC climate proposal, including regular reporting of scope 1, 2, and 3 GHG emissions, climate-related financial risks, and the company's strategy to manage and mitigate climate-related impacts.

The bills apply to **both public and private entities that do business in the state and meet certain annual revenue thresholds**. For those whom the new regulations apply, the California bills currently include **additional requirements beyond those from the SEC** including specifications related to limited assurance for GHG inventories and scope 3 reporting (regardless of materiality). To avoid duplication of effort, an entity could satisfy its reporting requirements under the two bills using disclosures prepared to comply with other reporting requirements (e.g., the Corporate Sustainability Reporting Directive, the International Sustainability Standards Board standards, any SEC rule), if those disclosures satisfy all of the requirements of the bills.

SB-261: Greenhouse Gases: Climate-Related Financial Risk

Under SB-261, entities with 1) more than $500 million in annual revenue that 2) do business in California would be required to **publicly disclose** a report disclosing the organizations climate-related financial risks in accordance with the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD).** If a company cannot comply with all required disclosures, they must provide what they can to the best of their ability and provide an explanation of reporting gaps and the steps they plan to take to prepare complete disclosures. The report must also include the measures they adopted to reduce and adapt to identified climate-related risks. Climate financial risk is defined by the bill as a "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."

Timing: On or before January 1, 2026 (or 2028) and biennially thereafter

SB-253: Climate Corporate Data Accountability Act

Under SB-253, entities with more than $1 billion in annual revenue that do business in California would be required to publicly disclose their scope 1, scope 2 and scope 3 emissions in accordance with the GHG Protocol and obtain third-party assurance over those disclosures. Entities would have to submit their emissions information to an emissions reporting organization that would be designated by the California Air Resources Board (CARB).

Timing: Scope 1 & 2 GHG emission reporting with limited assurance starting in 2026 (or 2028) (covering fiscal year prior) and annually thereafter. Scope 3 GHG emission reporting starting in 2027 (or 2029) (covering fiscal year prior and within 180 days of scope 1 and 2 reporting) and annually thereafter. By 2030 (or 2033), reasonable assurance for scope 1 and 2 GHG emissions (and possibly limited assurance for scope 3) will be required.

What to do next?

1. Consult with your legal team to confirm whether your organization will need to comply with the new regulations
2. Partner with Third Economy to help you advance along one of the following tracks to get you regulation-ready:
   - **Just starting out with your climate disclosures?**
     - Complete a **climate regulation gap assessment** and develop a readiness strategy to address disclosure and capability gaps
     - Conduct a **scope 1 and 2 GHG inventory** to assess emissions within your financial or operational control
     - Assess which of the 15 scope 3 categories are relevant to your businesses by completing a **scope 3 materiality screening** and prepare for your scope 3 inventory
     - Identify and evaluate climate-related risks and opportunities and draft disclosures in **alignment with TCFD recommendations**
     - Support with **CDP reporting** (also aligned with TCFD) to align climate disclosures with regular reporting cadence and stakeholder expectations
   - **Do you have existing climate disclosures?**
     - Leverage existing voluntary disclosures that align with new requirements including **sustainability reports, CDP reporting, and TCFD-aligned disclosures** and advance and refine these disclosures to meet regulatory requirements
     - Complete a **climate regulation gap assessment** and develop readiness strategy to address disclosure and capability gaps
     - Conduct **ongoing scope 1, 2, and 3 GHG inventories** ensuring alignment with the GHG Protocol

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