

California's Landmark Climate Disclosure Laws; What Companies Need to Know

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CLIENT ALERT | 10.23.2023

On October 7, 2023, California Governor Gavin Newsom signed Senate Bill (SB) 253, the Climate Corporate Data Accountability Act, and SB 261, the Climate-Related Financial Risk Act, which will set in motion the United States' first climate-related disclosure requirements for U.S. companies doing business in California. The statutes establish reporting requirements related to greenhouse gas emission reporting (SB 253) and climate-related financial risks (SB 261). In combination, this "Climate Accountability Package" requires many businesses operating in California to disclose their greenhouse gas (GHG) emissions and climate-related financial risk information. This Alert outlines what companies need to know:

What Companies are impacted?

These laws only apply to U.S. companies that do business in California. Also, these laws only apply to businesses that meet certain revenue thresholds:

- Companies with more than \$500 million annual revenue must comply with SB 261; and
- Companies with more than \$1 billion annual revenue must comply with SB 253.

Note, the revenue triggers in the bills are calculated as the total revenue, not the revenue earned in California. These laws apply to all types of business entities, including public and private companies, corporations, LLCs. One exception is that insurance companies are excluded from the SB 261 reporting requirements.^[1] SB 253 and SB 261 do not define what it means to "do business in California."

What are the SB 253 reporting requirements?

SB 253 requires all covered entities to disclose different categories of the businesses' GHG emissions. As explained in the statute:

- Scope 1 emissions include direct GHG emissions from all owned and controlled assets, regardless of the location of those assets;
- Scope 2 emissions include all indirect GHG emissions attributed to consumed electricity, heating, or cooling needs for the business; and
- Scope 3 emissions include all indirect upstream and downstream GHG emissions from sources that the business does not own or directly control, such as purchased goods and services, business travel, employee commutes, and product processing and use of sold products.

Importantly, the broad definition of Scope 3 emissions in the statute may impact those businesses, which either do not do business in California or are under the revenue threshold, if their operations are swept up as an indirect up-or downstream emission for an affected business.

What are the SB 261 reporting requirements?

SB 261 requires covered entities to prepare and submit biennial financial risk reports that detail a business's climate-related financial risks. These disclosures are completed in accordance with the framework recommended by the Financial Safety Board's [Task Force on Climate-Related Financial Disclosures](#). The disclosure must also detail any measures the business has taken to reduce or adapt to the climate-related risks identified in the report. In addition to submitting the reports to the California Air Resources Board (CARB), the company must also make these disclosure reports available on their websites.

When must companies comply with these requirements?

None of these requirements will go into effect until 2026. SB 253 will require reporting of Scope 1 and 2 emissions beginning in 2026, with Scope 3 reporting to follow in 2027. Similarly, SB 261 disclosures will begin on January 1, 2026 and every two years thereafter.

What happens next?

Both SB 253 and SB 261 require CARB to draft and implement regulations to develop and adopt regulations related to the laws. These regulations will lay out additional detail that companies will need to follow to comply with the laws, as well as regulations about the enforcement of the laws and any penalties related to noncompliance.

If you have any questions about how these California climate bills might impact your business, please contact David Edelstein, Nathaniel Morse, Adam Hamburg or your Vorys attorney.

^[1] Note, however, that insurance companies operating in California are already required to comply with National Association of Insurance Commissioners climate-related risk reporting standards based on an April 2022 action from the California Insurance Commissioner.