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Climate reporting at a crossroads

Here's what you should know about California's climate reporting rules.

In the US and abroad, regulations are forcing a pivot point in climate reporting: What was once voluntary is increasingly required.

What does that mean for you? On the inside: Better internal controls. New and stronger data systems. From the outside: Tougher scrutiny. Possible financial penalties. Reputational risk.

It's likely you have work to do.

Let's look at some of the changes unfolding right now.

SB 253 California Climate Corporate Data Accountability Act

SB 261 California Climate-Related Financial Risk Act

California Climate Corporate Data Accountability Act

This legislation (Calif. SB 253) requires businesses that operate in California[1] to publicly disclose and verify their Scope 1, 2, and 3 greenhouse gas (GHG) emissions data.

WHO	WHEN	THE STAKES	FRAMEWORK	ASSURANCE NEEDED?
$1B+ Reporting entities with annual revenues over $1 billion that do business in California[1]. *Estimated impact: 5,000+ companies*	Scope 1 and 2 rules go into effect in 2026. Scope 3 rules start in 2027. *The California Air Resources Board (CARB) will adopt specifics by 2025.*	**$500K** Fines of up to $500,000 per reporting year.	GHG Greenhouse Gas (GHG) Protocol	**Yes** Limited at first and advancing in phases[2]

California Climate-Related Financial Risk Act

The companion bill (Calif. SB 261) requires businesses to publicly disclose their exposure to physical and transition climate risks—and the measures they're using to address them.

WHO	WHEN	THE STAKES	FRAMEWORK	ASSURANCE NEEDED?
$500M+ Covered entities with annual revenues over $500 million that do business in California[1]. *Estimated impact: 10,000+ companies*	On or before January 1, 2026.	**$50K** Fines of up to $50,000 per reporting year.	TCFD Task Force on Climate-Related Financial Disclosures (TCFD)[3]	**No**

Demystifying the new language of climate reporting

Getting a handle on your climate data and reporting it in compliance with these and other laws may require a mix of data and systems you have with resources you have to add or strengthen.

But first things first: Complying with new regulatory structures begins with understanding them. Let's clear up a few of the terms:

Scope 1 GHG emissions

Emissions that a company *makes directly*—for example while running its boilers and vehicles.

Scope 2 GHG emissions

Emissions a company *makes indirectly*—such as when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf.

Scope 3 GHG emissions

All the emissions a company is *indirectly responsible* for, up and down its value chain—for example, created by suppliers it buys from, or by its products when customers use them.

Physical risk

Direct impacts from climate change, either immediate (e.g., a storm floods a facility) or long-term (e.g., climate patterns disrupt agriculture).

Transition risk

Risks that arise from an organization's management of the market, regulatory, technology, and other changes that climate change is driving—for example, green consumer demands or new regulations.

Let's talk.

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Endnotes

1. The term "Doing Business in California" is defined by The State of California Franchise Tax Board and the existing California tax code; however, the bill as-is does not explicitly reference these definitions. To determine the applicability of the bills, companies should carefully assess whether they meet the definition of "doing business" in California by consulting with their tax and legal advisors.
2. Limited assurance over scope 1 & 2 starting in 2026, phased into reasonable assurance beginning in 2030 (scope 3 assurance requirements to be determined by 2027).
3. Companies may also report in accordance with an "equivalent reporting requirement" (e.g., International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board).

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