CALIFORNIA'S CLIMATE LAWS

Seizing opportunities beyond compliance

Climate competitiveness in this new era of transparency

February 2024

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Decoding California's climate accountability legislation

California's incoming regulations, the Climate Corporate Data Accountability Act (Senate Bill 253) and the Climate-Related Financial Risk Act (Senate Bill 261)[1], slated to take effect in 2026, impose disclosure requirements for both large public and private entities operating within the state.

The new legislation signifies a crucial moment for California (and the U.S.), aligning with the global trend of mandatory climate-related disclosures and making significant strides toward a net-zero compatible economy.

These statutes mandate comprehensive disclosure and public reporting of greenhouse gas (GHG) emissions across all scopes, including indirect scope 3 emissions, and transparent communication of strategies to manage and reduce climate-related risks.

Navigating this complex terrain can be challenging. A company's sustainability maturity, the emissions intensity of its sector and their commitment to climate goals contribute to its approach in understanding and adapting to these new laws.

In particular, those who have not started a GHG footprint assessment or evaluated financial exposure to climate risks have a chance to address upcoming mandates by taking prompt action.

California's climate laws drive transparency in environmental reporting, revealing a company's current climate impact and preparedness for future regulations. The objective is to enhance corporate accountability, integrity, and transparency, fostering a resilient low-carbon economy within the state.

[1] From this point forward, we will refer to the bills as SB 253 and SB 261

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In a nutshell

SB 253: Climate Corporate Data Accountability Act

Publicly traded and privately owned companies with annual revenues over $1 billion doing business in California are required to publicly report their emissions on operations and electricity use (scopes 1 and 2) starting in 2026 and their supply chain emissions, including upstream and downstream emissions (scope 3) starting in 2027 – on an annual basis.

SB 261: Climate-Related Financial Risk Act

Publicly traded and privately owned companies with annual revenues over $500 million doing business in California are required to disclose their climate-related financial risks and how they plan to reduce and adapt to these risks on a biennial basis beginning in 2026, consistent with climate-related disclosures recommendations established by the Taskforce on Climate-Related Disclosures (TCFD)[1].

[1] As of 2024, the International Financial Reporting Standards (IFRS) foundation has taken over the monitoring of the progress on companies' TCFD Disclosures. The IFRS S1 and IFRS S2 fully incorporate the recommendations of the TCFD

Criteria for "doing business in California"

Physical California location
Having an office, warehouse, store, or other physical location in California is a clear indicator of doing business in the state

Revenue generation
Generating significant revenue from California residents, even without a physical presence (such as online businesses)

Regular transactions
Conducting regular business transactions in California, such as sales or services

Employees
Having employees or independent contractors working in California, either full-time or part-time

Legal entity registration
Registered as a legal entity (like a corporation or LLC) in the State of California

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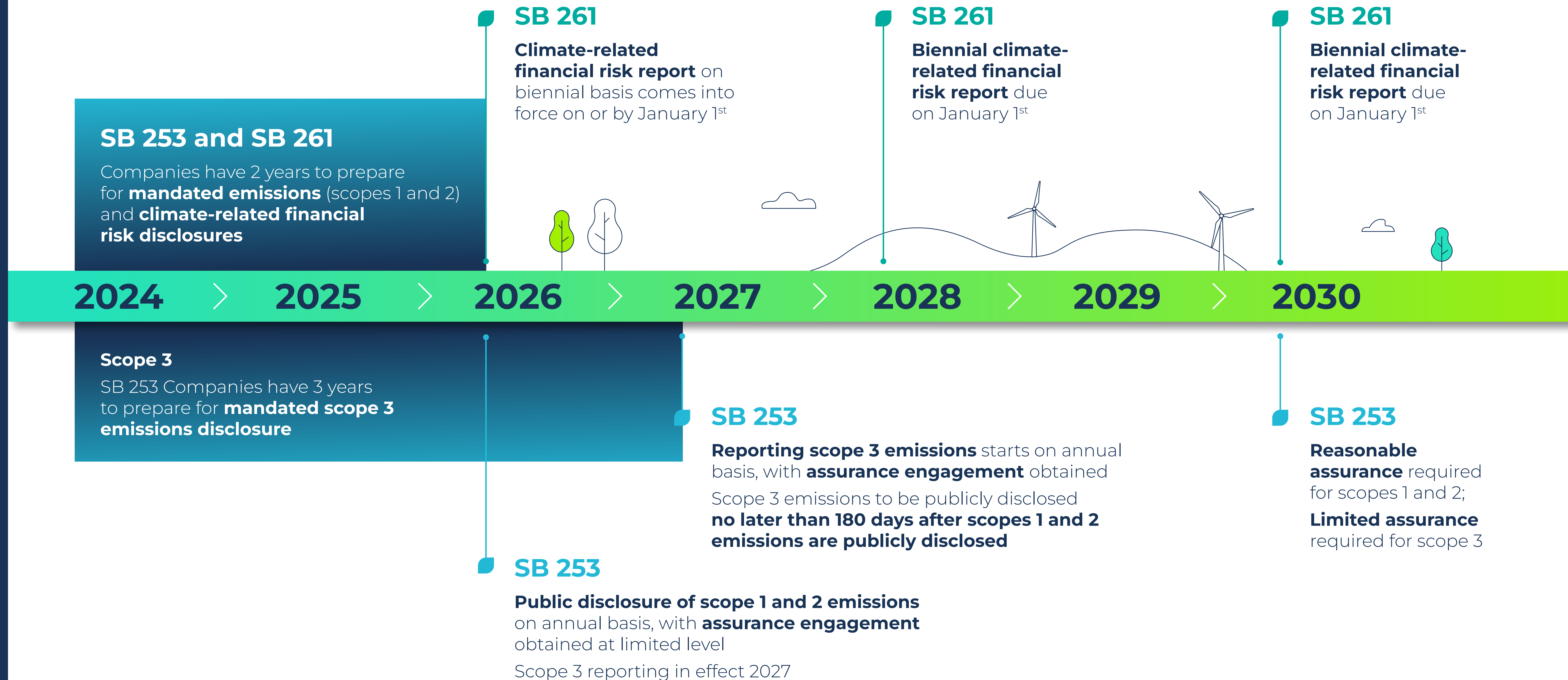
Timeline

California is implementing gradual deadlines for GHG emissions and climate-related financial risk disclosures



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SB 253 and SB 261 snapshot

	SB 253 Climate Corporate Data Accountability Act	SB 261 Climate-Related Financial Risk Act
Revenue	>$1 billion annual revenue; both private and public companies	>$500 million annual revenue; both private and public companies
Disclosure format	Emissions disclosure on digital platform managed by the emissions reporting organization.	Disclosure on company website
Reporting frequency	Report scopes 1 and 2 annually starting 2026; Report scope 3 annually starting 2027	Report biennially starting 2026
Framework	GHG Protocol	TCFD aligned or CSRD and IFRS alignment Need to complete GHG inventory to conduct climate-related risk report
Assurance	Scopes 1 and 2: Limited assurance (2026) and reasonable assurance (2030) Scope 3: Limited assurance (2030)	Assurance is not currently required on the climate-related risk report
Managing/umbrella organization	Emissions reporting organization	Climate reporting organization
Penalties	Up to $500,000 per year for non-disclosure No financial penalties for non-compliance with emission standards until 2030	$50,000 per reporting year

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SB 253

Climate Corporate Data Accountability Act

SB 253 is the first US law requiring companies to publicly report their GHG emissions, including supply chain emissions.

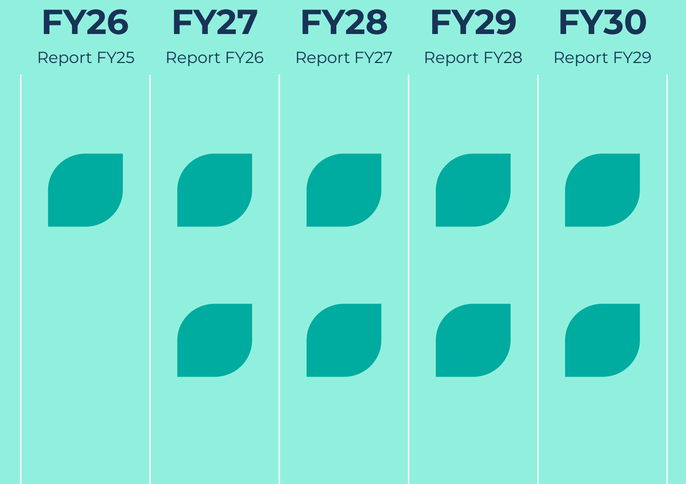
Emissions reporting is mandatory, supplying transparency and consistency. The law will impact partnerships, corporations, LLCs, and other business entities – both publicly traded and privately owned, with total annual revenue over $ 1 billion, doing business in California.

Requirements

Timeline

Scopes 1 and 2: Publicly disclose to the emissions reporting organization all of their scope 1 and scope 2 emissions for the prior fiscal year (2025), and annually thereafter.

Scope 3: Publicly disclose scope 3 emissions for the prior fiscal year (2026), no later than 180 days after their scopes 1 and 2 emissions are publicly disclosed, and annually thereafter.



Emissions Accounting

Companies are required to measure and report their GHG emissions in conformance with the GHG Protocol standards and guidance, including:

- GHG Protocol
- Corporate Accounting and Reporting Standard
  Corporate Value Chain (scope 3) Accounting and Reporting Standard
- Guidance for scope 3 emissions calculations that detail the acceptable use of both primary and secondary data sources, including the use of industry average data and proxy data

Public reporting

Companies must publish their GHG emissions disclosure on a publicly accessible digital platform, on or before January 1, 2026, and annually thereafter.

Assurance

Companies must enlist independent third-party assurance provider to conduct engagement.

Scope 1 and 2 emissions: Limited assurance level	2026
Scope 1 and 2 emissions: Reasonable assurance level	2030
Scope 3 emissions: Limited assurance level	2030

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SB 261
Climate-Related Financial Risk Act

SB 261 sets mandatory and comprehensive risk disclosure requirements for public and private entities.

By January 1, 2026, public and private companies ("covered entity") with annual revenues more than $500 million will need to prepare a climate-related financial risk report which is publicly available on their website. This includes corporations, partnerships, LLCs, or other business entities that do business in California.

Requirements

Climate-related financial risk report

Prepared on or before January 1, 2026, and then updated biennially, disclosing both:

- Climate-related financial risks
- Measures to reduce and adapt to a company's disclosed climate-related financial risk

Public reporting

Companies' climate risk reports are to be published on their organizational website and available to the public, on or before January 1, 2026.

Review of climate-related risk

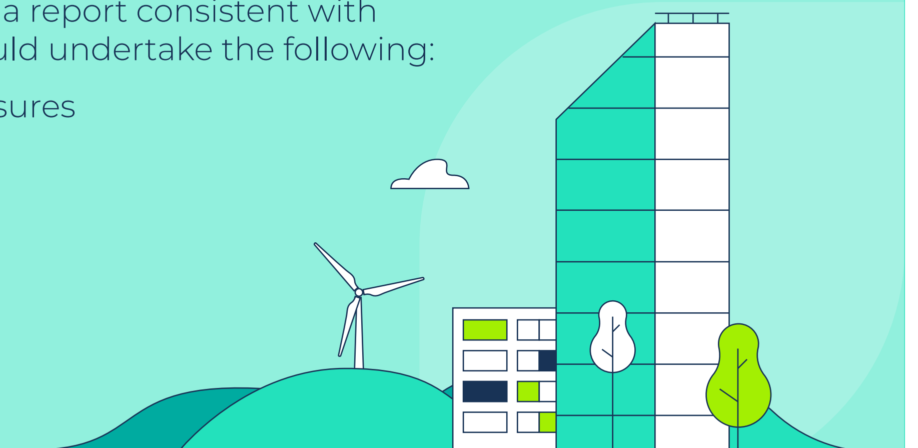
Climate reporting organization contracted by state board biennially prepares a public report that contains the following:

- **Sector by sector review**
  A review of the disclosure of climate-related financial risk contained in a subset of publicly available climate risk reports by industry.
- **Systemic and sector-wide analysis**
  Analysis of the systemic and sector-wide climate-related financial risks facing the state based on the contents of climate-related financial risk reports, including, but not limited to, potential impacts on economically vulnerable communities.

Identification of inadequate or insufficient reports

If a company is not able to complete a report consistent with the requirements, the company should undertake the following:

- Provide the recommended disclosures to the best of their ability
- Provide a detailed explanation for any reporting gaps
- Describe steps they will take to complete disclosures



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Key elements of the mandated climate-related financial risk report

(based on TCFD disclosures)

The fundamental components of a climate risk report empower companies to thoroughly comprehend and assess their distinct climate-related risks and opportunities. The objective is to fortify corporate resilience against environmental uncertainties, delivering comprehensive risk information to investors, lenders, insurers, and other stakeholders.

Climate-related risk report key components

Governance

Provide a comprehensive overview of how the organization oversees and manages climate-related risks and opportunities.

Strategy

Transparently reveal the actual and potential effects of climate-related risks and opportunities on the organization's business, strategy, and financial planning.

Risk Management

Clearly outline the organization's systematic approach to identifying, assessing, and proactively managing climate-related risks.

Metrics and Targets

Clearly present the specific metrics and ambitious targets utilized to effectively evaluate and address relevant climate-related risks and opportunities.

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Seizing opportunities beyond compliance

California's SB 253 and SB 261 impose a comprehensive mandate for disclosing GHG emissions and climate-related financial risk, significantly impacting businesses that have not engaged in voluntary reporting through platforms like CDP or similar channels, nor systematically evaluated and disclosed their climate risks.

These laws require unprecedented disclosure in the U.S., compelling companies to publicly present verified GHG emissions, and associated climate risks, including emission reduction plans, and risk mitigation strategies on accessible platforms on their websites or other accessible platforms.

Such transparency equips stakeholders – be they investors, lenders, insurers, consumers, governmental bodies, or market rivals – with the means to assess a company's environmental footprint, risks, and strategic commitment to mitigating and reducing these risks.

While some companies already submit their emissions data to CDP and may align their climate risk disclosures with TCFD , the option to publish this information on their website has been discretionary (in the U.S.), with varying degrees of public accessibility.

A company's environmental practices will be subject to comparison with industry peers

Key comparison metrics

- Thoroughness of emissions reporting, particularly scope 3 emissions
- Comprehensiveness of climate risk disclosures
- Details contained within climate transition, risk adaptation and reduction strategies

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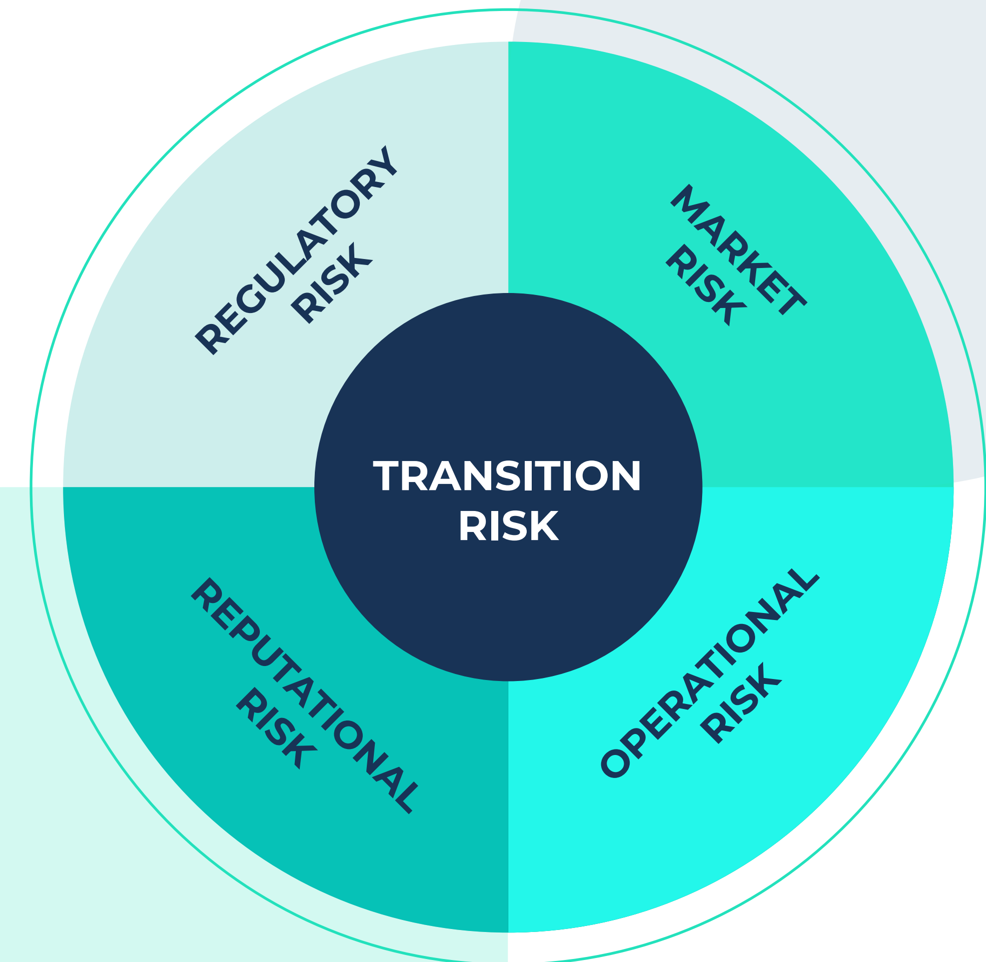
Transition challenges highlighted by the California regulations

SB 253 and SB 261 aim to enhance transparency and accountability for climate impacts. However, they also bring transition risks for companies as they adjust to new requirements, emphasizing the need for proactive planning.

These regulations heighten different legal and financial risks for non-compliance and influence strategic decisions, requiring consideration of climate change on business models and financial health.



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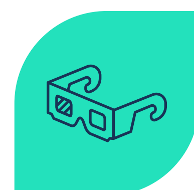
Risks

Compliance investment

Companies may need to invest in new processes and/or technologies to comply with disclosure requirements. This could include costs for data collection, reporting infrastructure, and third-party assurance services. Non-compliance can lead to substantial penalties.

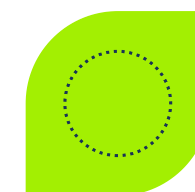
Market expectations

As transparent reporting highlights a company's carbon footprint and climate risk, consumer and investor demand may increasingly favor lower-carbon / low-climate risk alternatives. This shift necessitates that companies revise their product or service offerings to meet new market expectations. Failure to evolve in accordance with sustainability benchmarks could result in a significant loss of market share.



Corporate scrutiny

With SB 253 and SB 261, companies are now under the microscope for their environmental impact. Transparency in reporting climate-related risks and greenhouse gas emissions will become a benchmark for corporate integrity. A failure to meet these disclosure expectations can lead to a tarnished reputation, undermining stakeholder trust and potentially eroding customer loyalty and investor confidence.

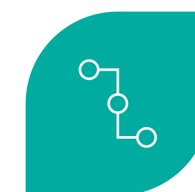


Stranded assets

Investments in assets or technologies that are at risk of becoming obsolete due to regulatory changes or shifts in market preferences can lead to stranded assets which can result in significant financial losses.

Litigation exposure

The potential for litigation increases as stakeholders, including shareholders and the public, hold companies accountable for their environmental impact and the accuracy of their reporting.



Operational adjustments

Adapting to new regulations may require changes in operations, supply chain management, and overall business strategy, which can be complex and disruptive.

Financial reporting

The need to accurately report on climate-related financial risks and GHG emissions might require changes in financial reporting systems and processes, posing challenges in maintaining accuracy and consistency.

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Opportunities

Companies with and without previous climate reporting experience can transform transition risks into opportunities

Proactive reporting allows companies to identify and address risks early on, reducing the potential for future liabilities and ensuring long-term business resilience.

Regulatory preparedness

Early adoption of reporting protocols ensures readiness for future regulations, positioning the company as compliant and proactive, reducing the risk of future legal or regulatory challenges.

Competitive differentiation

By establishing robust reporting systems early, companies can distinguish themselves as leaders in transparency and environmental responsibility, attracting customers and investors who value sustainability.

Operational efficiency gains

The process of setting up systems for data collection and analysis can uncover opportunities to streamline operations, leading to long-term cost savings and improved resource management.

Data-driven decision making

With accurate emissions and risk data, companies can make more informed strategic decisions, optimizing performance and aligning with global sustainability trends.

Innovation and market leadership

Understanding climate-related financial risks and GHG emissions reporting can spur innovation in products and services, positioning the company as a market leader in emerging green sectors.

Enhanced reputation

Proactive companies can leverage their early adoption of reporting to build a reputation as a sustainable and forward-thinking brand, strengthening stakeholder trust and loyalty.

Access to new markets and capital

Transparent reporting can unlock new opportunities in sustainability-focused markets and may increase eligibility for green financing options and investment from ESG-focused funds.

Employee engagement and attraction

A commitment to sustainability can increase employee morale and attract top talent who are looking for employers with strong environmental credentials.

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Prepare, execute and comply with Agendi

For companies new to sustainability reporting, initiating disclosures now is the first step to meeting upcoming compliance requirements and enhancing climate competitiveness.

Early action equips you to navigate and shape the evolving landscape of environmental regulations, enhances your reputation for transparency, and prepares you for the investor scrutiny that is intensifying as markets increasingly prioritize climate resilience and responsible stewardship.

Not yet calculating your emissions?
Agendi can assist in taking the next steps to quantify your emissions.

Emissions are quantified but require further support climate risk disclosure
Agendi can guide you on disclosing your climate-related financial risk.

Calculating scope 1 and 2, yet to tackle scope 3?
Agendi offers expertise for undertaking a scope 3 inventory and refining your data governance strategy.

Annual emissions reporting and biennial climate risk disclosure in place. Compliance requirements are met.
Agendi will support your organization to assess climate scenarios and identify relevant metrics and methodologies to support quantification of financial impacts.

Agendi's team of experts can assist in developing your implementation roadmap, ensuring preparedness for compliance now and beyond. Tailoring our support to your sustainability maturity level, we guide you through the journey.

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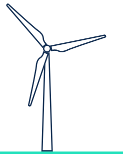
Your implementation roadmap

Proactively manage your GHG emissions and climate risk reporting



1. Assess ambition

Ambition assessment
The critical first step involves identifying your sustainability position against peer, industry, and climate leaders.

Materiality assessment
Conducting a materiality assessment will identify the priority sustainability areas for your business.

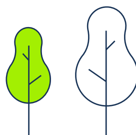
2. Measure emissions

Set a data collection and reporting framework:

Data collection systems
Establish or upgrade data collection systems for accurate GHG emissions reporting, including scope 1, 2, and 3 emissions. This might involve implementing new software or adapting existing infrastructure.

Emissions calculation and reporting
Design a GHG emissions inventory plan, assessing product and service supply chains to determine carbon footprints. Calculate emissions according to the GHG Protocol and prepare reports that meet legislative requirements.

Third-Party assurance
Source and liaise with third-party assurance providers for emissions disclosures, ensuring that the providers are qualified and experienced.



3. Identify and evaluate risk

Regulations gap analysis and benchmark study
Assess maturity against legislative requirements; developing a disclosure roadmap plan.

Scenario analysis (risks and opportunites)
Undertake physical and transition risk analysis across operations including customers, suppliers and investment portfolio to inform development of a climate-related risk inventory.

Stakeholder engagement
Engage stakeholders across the business to validate climate risks and opportunities.

Business impact and strategic planning
Validate the translation of climate risk exposure to financial impact and identify KPIs to manage risk and track opportunity evolution.

Reporting
Lead drafting on climate-related risk report content to ensure compliance and for inclusion in sustainability and financial reports.

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Your implementation roadmap

Proactively manage your GHG emissions and climate risk reporting

4. Engage stakeholders

Employee training
Devise and deliver capacity building programs to ensure relevant business areas understand responsibilities in relation to GHG accounting and data governance.

Leadership workshops
For senior management and decision-makers, focusing on integrating sustainability into the core business strategy.

5. Report

Public reporting
Annual greenhouse gas emissions should be reported on a publicly accessible digital platform which will be created by the California Air Resources Board (CARB). The biennial climate-related financial risk report should be disclosed on a company's website.

Regular updates
Stay up to date on changes in legislation or reporting standards.

Annual reporting support
Offer annual support for preparing and submitting reports, ensuring consistency and accuracy year-over-year.

6. Plan long-term

Long-term sustainability planning
Integrate sustainability into long-term business strategies, beyond compliance, including exploring opportunities for sustainable growth and innovation.

Stakeholder engagement
Communicate sustainability efforts and compliance with stakeholders, including investors, lenders, insurers, customers, and regulatory bodies.

Benchmarking and performance tracking
Set sustainability benchmarks and track performance against industry standards and peers.

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To discuss how we can help your company on your sustainability journey, whether you are new to reporting or seeking to advance your strategies, please get in touch with us.

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