# California's climate legislation:

## What it means for you

## What is the legislation?

On Oct. 7, 2023, Gov. Gavin Newsom of California signed into law two landmark climate bills – the Climate Corporate Data Accountability Act (SB 253) and the Greenhouse Gases: Climate-Related Financial Risk Act (SB 261) – known collectively as the Climate Accountability Package (CAP). On Sept. 27, 2024, Gov. Newsom signed Greenhouse Gases: Climate Corporate Accountability: Climate-Related Financial Risk (SB 219) into law, which amended certain provisions of SB 253 and SB 261.

While SB 219 incorporated various minor amendments to the previously issued SB 253 and SB 261, reporting deadlines under these bills remain unchanged.

## Who will be affected?

Public and private companies doing business in California will be affected based on their total annual revenue. "Doing business in California" is broadly defined as "engaging in any transaction for the purpose of financial gain within California" by the California Franchise Tax Board. These rules could affect more than 10,000 businesses.

## What are the obligations?

**Companies with more than $1 billion in annual revenue: SB 253**

- Companies subject to this rule will be required to disclose and obtain assurance over their annual greenhouse gas (GHG) emissions beginning in 2026.
- Annual disclosures will include:
  - Scope 1 and Scope 2 GHG emissions starting in 2026 for the 2025 reporting period
  - Scope 3 emissions starting in 2027 for the 2026 reporting period
- Emissions reporting will follow the GHG Protocol Corporate Accounting and Reporting Standard and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.
- Reporting entities must also obtain assurance by an independent third party for Scope 1 and Scope 2 emissions starting in 2026. Assurance requirements over Scope 3 emissions would start in 2030 or a date to be determined by the California Air and Resources Board (CARB).

**Companies that exceed $500 million in annual revenue: SB 261**

- Companies subject to SB 261 will be required to prepare biennial climate-related financial risk reports beginning on or before Jan. 1, 2026.
- Biennial disclosures would include:
  - Climate-related financial risk reports in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
  - Discussion of measures adopted by companies to reduce and adapt to material climate-related financial risks

These rules would require that companies make disclosures publicly available, whether through a state-determined reporting platform or on their websites.

## What key amendments were introduced by SB 219?

**Additional administrative flexibility for CARB**

- Provides a six-month relief period for CARB to issue rulemaking on emissions reporting, ending in July 2025
- Removes requirement that Scope 3 emissions be reported within 180 days after Scopes 1 and 2 are disclosed and instead allows CARB to specify a reporting schedule for Scope 3
- Provides CARB with greater administrative flexibility in determining how reports are to be submitted, including eliminating requirement to contract with a third-party reporting platform

**Clarification on emissions reporting boundaries and updated annual filing fee requirements**

- Clarifies that emissions reporting may be consolidated at the parent company level
- Allows greater flexibility for payment of annual filing fee, which can be paid any time before first filing is due and annually thereafter

## How can organizations prepare?

- **Determine applicability.** Ascertain which elements of the CAP might apply for you, as the rules will directly affect many companies and indirectly affect many more through customers that might need data from you to meet their reporting requirements.
- **Assemble a cross-functional team.** Gather key team members, who might come from legal, risk, financial reporting, and environmental, health, and safety, as well as other areas of your business. These team members need to have a working understanding of GHG emissions, the GHG Protocol, and the TCFD framework.
- **Conceptualize and calculate emissions.** Begin mapping out Scope 1, 2, and 3 emissions and identify the sources of the underlying data to support your calculations. Document your approach as you create repeatable and auditable processes with strong internal controls.
- **Conduct a climate risk assessment.** Analyze and document your climate-related financial risks, including physical and transitional risks. Physical risks might cause physical damage to tangible assets and affect access to supply chains and labor. Transitional risks might affect you via increased regulations and access to low-carbon energy or certain raw materials.

## How can Crowe help?

Our team has extensive experience assisting public and private companies across all industries to meet their ESG goals. We can help in many ways, including:

- Board and management education
- Calculating Scope 1, 2, and 3 GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard
- Setting processes and internal controls to enable auditable GHG reporting
- Conducting GHG assurance readiness assessments
- Providing external assurance on GHG calculations
- Automating GHG data collection software selection
- Developing ESG reports in line with the TCFD framework, the Sustainability Accounting Standards Board, the Global Reporting Initiative, the CDP, and other regulatory obligations and frameworks

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