iGAAP in Focus
Sustainability reporting
California Climate Legislation

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This *iGAAP in Focus* outlines the California state senate bills SB-253—*Climate Corporate Data Accountability Act* and SB-261—*Greenhouse Gases: Climate-related Financial Risk* signed into law by California Governor Gavin Newsom on 7 October 2023.

- California Governor Gavin Newsom signed into law two state senate bills that collectively require certain public and private US entities doing business in California to provide quantitative and qualitative climate disclosures
- There is no specific exception for groups with a non-US parent, and therefore foreign entities with US-based subsidiaries doing business in California would fall within the scope of the requirements
- The bills, SB-253—*Climate Corporate Data Accountability Act* and SB-261—*Greenhouse Gases: Climate-Related Financial Risk*, establish the first industry-agnostic US regulations that mandate the corporate reporting of greenhouse gas (GHG) emissions and climate risks in the United States
- SB-253 will require entities within its scope to provide annual quantitative disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions
- SB-261 will require entities to prepare and make publicly available on their website biennial qualitative reporting on climate-related financial risk and measures taken to reduce and adapt to that risk applying the frameworks and disclosure guidance established by the Task Force on Climate-related Financial Disclosures (TCFD)
- IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), along with other TCFD successor or equivalent reporting standards, are also an acceptable framework for reporting under SB-261
- The first biennial report is required by 1 January 2026, with staggered effective dates for further requirements

For more information please see the following websites:

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Overview

On 7 October 2023, California Governor Gavin Newsom signed into law two state senate bills that together require certain public and private US entities doing business in California to provide both quantitative and qualitative climate disclosures. The bills, SB-253—*Climate Corporate Data Accountability Act* and SB-261—*Greenhouse Gases: Climate-Related Financial Risk*, establish the first industry-agnostic US regulations that mandate the corporate reporting of greenhouse gas (GHG) emissions and climate risks in the United States.

The bills apply to public and private US-based entities[1], depending on their total annual revenue.

The requirements introduced by the bills can be summarised as follows:

SB-253	SB-253 requires entities within its scope to provide annual quantitative disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions applying the GHG Protocol reporting guidance, with limited assurance required initially for disclosures of Scope 1 and Scope 2 GHG emissions. Scope 3 GHG emission reporting, reasonable assurance for Scope 1 and Scope 2 GHG emission disclosures, and potential limited assurance for Scope 3 GHG emission disclosures will be phased-in between 2027 and 2030 (see the illustrative timeline below).
SB-261	SB-261 requires entities to prepare and make publicly available on their corporate website biennial qualitative reporting on climate-related financial risk and measures taken to reduce and adapt to that risk applying the frameworks and disclosure guidance established by the Task Force on Climate-related Financial Disclosures (TCFD). No assurance is required for this qualitative reporting. IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), along with other TCFD successor or equivalent reporting standards, are also an acceptable framework for reporting under SB-261.

Scope

Both bills apply to US-based entities doing business in California. Application depends on the entity's total annual revenue, regardless of whether the entity is publicly or privately held. Therefore, private entities could be required to provide disclosures under the California regulations if they meet the revenue thresholds (outlined below) and do business in California. The bills, as written, do not clearly define what "doing business in California" means. However, on the basis of the "doing business in California" concept under California tax law, early indications are that the threshold for doing business in the state might be quite low.

Observation

There is no specific exception for groups with a non-US parent, and therefore foreign entities with US-based subsidiaries doing business in California would fall within the scope of the requirements.

1 Both bills apply to US-based entities but use slightly different terminology. SB-253 defines a "reporting entity" as "a partnership, corporation, limited liability company, or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States." SB-261 defines a "covered entity" similarly; however, it excludes entities in the insurance business.

The following table summarises the requirements and applicability of the two bills:

	Senate Bill 253 **Climate Corporate Data Accountability Act**	**Senate Bill 261** **Greenhouse Gases: Climate-related Financial Risk**
Overview of reporting requirements	Scope 1, Scope 2 and Scope 3 GHG emissions	• Climate-related financial risks • Measures the entity has adopted to reduce and adapt to such risks
Entities affected	Public and private US-based businesses with total annual revenues exceeding $1 billion and that do business in California	Public and private US-based businesses, excluding those in the insurance industry, with total annual revenues exceeding $500 million and that do business in California
Compliance timeline and attestation	• Starting in 2026—Disclose and provide limited assurance for Scope 1 and Scope 2 GHG emissions for the prior fiscal year • Starting in 2027—Disclose Scope 3 emissions for the prior fiscal year within 180 days of disclosing Scope 1 and Scope 2 GHG emissions (no assurance required for Scope 3) • Starting in 2030—Disclose and provide reasonable assurance for Scope 1 and Scope 2 GHG emissions for the prior fiscal year; possible limited assurance for Scope 3 emissions*,**	• On or before 1 January 2026—Public report disclosure in accordance with the climate-risk disclosure requirements; no attestation requirement
Reporting frequency	Annual	Biennial
Reporting location	Publicly disclose on a digital platform (to be created by the regulator)	Entity's corporate website
Existing standards and frameworks leveraged	Greenhouse Gas Protocol	• Task Force on Climate-related Financial Disclosures (TCFD) • Entities may also report in accordance with an "equivalent reporting requirement", such as IFRS S2 *Climate-related Disclosures*
Penalty for non-compliance	Failure to comply will result in a fine of up to $500,000 in a reporting year	Failure to comply will result in a fine of up to $50,000 in a reporting year

* Starting in 2030, Scope 3 emissions may be required to be disclosed "as close in time as practicable" to the disclosure timing of Scope 1 and 2; however, this is up to the California Air Resources Board to evaluate in 2029 based on current trends in Scope 3 emissions reporting

** Scope 3 assurance requirements to be determined by 2027

The requirements

Quantitative emission disclosures (SB-253)

Under SB-253, a US-based entity that is doing business in California and has over $1 billion in total annual revenue (a "reporting entity") for the prior fiscal year will be required to disclose its annual GHG emissions in line with guidance provided by the GHG Protocol. SB-253 describes three types of emissions generated by a business and its value chain as follows:

- 'Scope 1 emissions' means all direct GHG emissions that stem from sources that a reporting entity owns or directly controls, regardless of location. This includes, but is not limited to, fuel combustion activities
- 'Scope 2 emissions' means indirect GHG emissions from consumed electricity, steam, heating or cooling purchased or acquired by a reporting entity, regardless of location
- 'Scope 3 emissions' means indirect upstream and downstream GHG emissions, other than Scope 2 emissions, from sources that the reporting entity does not own or directly control. These may include, but are not limited to, purchased goods and services, business travel, employee commutes, and processing and use of sold products. Scope 3 emissions can be calculated by leveraging either primary emissions data from entities in the value chain or by leveraging secondary data such as industry averages or proxy data

GHG emissions reporting is subject to independent third-party assurance. Scope 1 and Scope 2 GHG emissions are subject to limited assurance from the first year of disclosure in 2026 (on the basis of 2025 fiscal-year activity) and reasonable assurance starting in 2030 (on the basis of 2029 fiscal-year activity). Scope 3 GHG emission disclosure is required beginning in 2027 (on the basis of 2026 fiscal-year activity) no later than 180 days after the reporting entity's Scope 1 and Scope 2 GHG emission disclosure. Scope 3 GHG emissions may be subject to limited assurance starting in 2030. The California Air Resources Board (CARB) is required to review and evaluate trends in third-party assurance of Scope 3 information during 2026 and determine by 1 January 2027 whether to establish an assurance requirement for Scope 3 GHG emission disclosures.

CARB is tasked with developing and adopting regulations to codify the requirements in the bill by 1 January 2025, including the first annual reporting deadline sometime in 2026.[2]

Qualitative climate-risk disclosure (SB-261)

Under SB-261, US-based entities that are doing business in California and have over $500 million in total annual revenue ("covered entities") for the prior fiscal year will be required to publish a biennial climate risk report and make it available on their corporate websites. In addition, this report may be consolidated at the parent level. If a subsidiary of a parent, which is a covered entity, also qualifies as a covered entity, the subsidiary is not required to prepare a separate report. SB-261 excludes insurance entities already subject to similar climate-risk reporting requirements.[3]

The bill defines a climate-related financial risk as one in which there is "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."

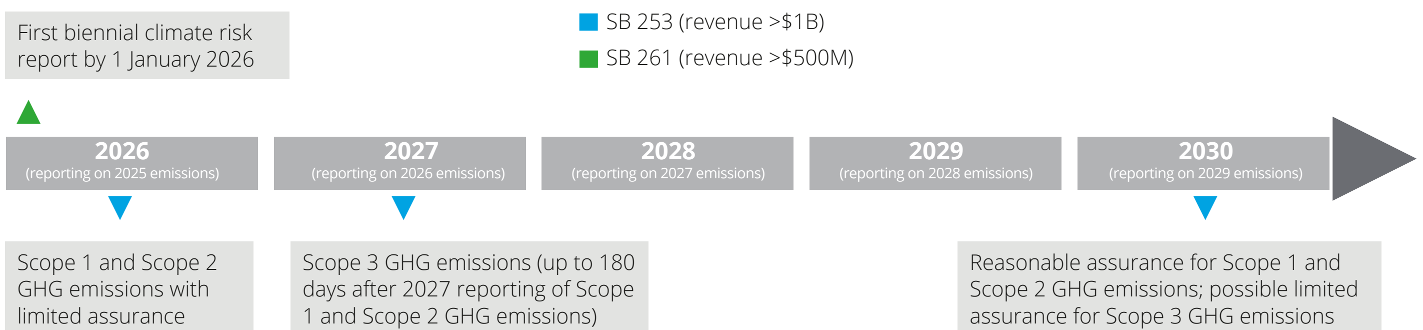
Covered entities must also disclose the measures they are undertaking to reduce and adapt to the climate risks identified. The bill requires covered entities to frame their risk assessment in accordance with guidance from the *Final Report—Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)* published by the TCFD, or any successor or equivalent reporting requirements. The IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB) are considered equivalent standards because they fully incorporate the TCFD's recommendations.

Observation

The bills leverage the GHG Protocol and the TCFD recommendations and they are therefore well aligned with IFRS S2 *Climate-related Disclosures*, which incorporates and builds on the TCFD recommendations and requires application of the GHG Protocol. This should help entities minimise the effort required to prepare disclosures to meet the requirements of different standards and regulations.

Effective date

The timeline below outlines the initial requirements for disclosure under both bills. The California rules do not provide a phase-in of applicability on the basis of an entity's size.



2 CARB currently oversees California's mandatory reporting of GHG emissions (e.g. Scope 1 stationary combustion and process emissions) from major sources such as electricity generators, industrial facilities, fuel suppliers and electricity importers under the California Global Warming Solutions Act of 2006 (AB-32)

3 In April 2022, the National Association of Insurance Commissioners, in conjunction with the TCFD, adopted a new standard for insurance entities' reporting of their climate-related risks.

Monitoring and compliance

Both bills task CARB with developing and adopting regulations as necessary to require the disclosures outlined above and to monitor and enforce compliance. Entities within the scope of the legislation will be required to pay an annual fee to CARB to cover the costs of implementation and administration. Fees will be managed through dedicated funds established by each bill.

For both bills, monitoring would be performed by an outside entity as follows:

SB-253	On or before 1 July 2027, CARB is to contract with the University of California, the California State University, a national laboratory, or another equivalent academic institution to prepare a report on the public disclosures made by reporting entities to the emission reporting organisation and highlighting GHG emissions from reporting entities in the context of state GHG emission reduction and climate goals
SB-261	CARB will engage a non-profit climate reporting organisation to biennially prepare a report that (1) identifies inadequate or insufficient reports, (2) reviews climate-related financial risk by industry and (3) analyses the systemic and sector-wide climate-related financial risks facing California

Both bills include a mechanism for penalising entities for non-compliance or if reporting is found to be insufficient. Under SB-253, penalties of up to $500,000 in a reporting year could be levied for non-filing, late filing, or other failures to meet the requirements. Between 2027 and 2030, penalties related to Scope 3 GHG emission disclosure would only apply to non-filing. Under SB-261, penalties of up to $50,000 in a reporting year could be levied for the failure to make a report publicly available or for the publication of an inadequate or insufficient report. In determining penalties under either bill, CARB will consider all relevant circumstances, including past and present compliance with the regulation and whether entities undertook good-faith measures to comply.

Other resources

iGAAP in Focus on the first IFRS Sustainability Disclosure Standards

iGAAP in Focus on the final text of the CSRD

iGAAP in Focus on the first set of European Sustainability Reporting Standards (ESRS)

Further information

If you have any questions about the California climate bills, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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