



THOUGHT LEADERSHIP

Navigating California's New Climate Legislation

What it Means for Your Organization

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UPDATE (July 2024)

Consistent with other global climate regulation, SB-261 and SB-253 have both experienced legal challenges in the court since signing, with lawsuits contending that the bills violate First Amendment rights, the Supremacy Clause, and other constitutional limitations against the California Air Resources Board (CARB).

Additionally, in July 2024, California Governor Gavin Newsom proposed amendments delaying the implementation of these two climate bills by two years (2026 vs. 2028 for Scope 1 and 2), to give CARB more flexibility in creating and managing these rules. The amendments will be voted upon by CA lawmakers by August 31, 2024.

Our advice for the affected companies remains the same – consult with your legal and compliance team to get your climate disclosures in place sooner rather than later. If not for California's regulations – for Europe's CSRD requirements, for the SEC's climate ruling, or for the potential questionnaires from partners up and down the value chain.

Background

This October, the governor of California signed two climate disclosure bills into law:

1. [SB-261](#): Greenhouse Gases: Climate-Related Financial Risk and
2. [SB-253](#): Climate Corporate Data Accountability Act.

Together, these bills cover similar disclosure content as anticipated under the pending SEC climate proposal, including regular reporting of scope 1, 2, and 3 GHG emissions, climate-related financial risks, and the company's strategy to manage and mitigate climate-related impacts.

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The bills apply to **both public and private entities that do business in the state and meet certain annual revenue thresholds**. For those whom the new regulations apply, the California bills currently include **additional requirements beyond those from the SEC** including specifications related to limited assurance for GHG inventories and scope 3 reporting (regardless of materiality). To avoid duplication of effort, an entity could satisfy its reporting requirements under the two bills using disclosures prepared to comply with other reporting requirements (e.g., the [Corporate Sustainability Reporting Directive](#), the [International Sustainability Standards Board](#) standards, any SEC rule), if those disclosures satisfy all of the requirements of the bills.

SB-261: Greenhouse Gases: Climate-Related Financial Risk

Under SB-261, entities with 1) more than \$500 million in annual revenue that 2) do business in California would be required to **publicly disclose** a report disclosing the organizations climate-related financial risks in accordance with the recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#). If a company cannot comply with all required disclosures, they must provide what they can to the best of their ability and provide an explanation of reporting gaps and the steps they plan to take to prepare complete disclosures. The report must also include the measures they adopted to reduce and adapt to identified climate-related risks. Climate financial risk is defined by the bill as 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.”

Timing: On or before January 1, 2026 (or 2028) and biennially thereafter

SB-253: Climate Corporate Data Accountability Act

Under SB-253, entities with more than \$1 billion in annual revenue that do business in California would be required to publicly disclose their scope 1, scope 2 and scope 3 emissions in accordance with the GHG Protocol and obtain third-party assurance over those disclosures. Entities would have to submit their emissions information to an emissions reporting organization that would be designated by [the California Air Resources Board \(CARB\)](#).

Timing: Scope 1 & 2 GHG emission reporting with limited assurance starting in 2026 (or 2028) (covering fiscal year prior) and annually thereafter. Scope 3 GHG emission reporting starting in 2027 (or 2029) (covering fiscal year prior and within 180 days of scope 1 and 2 reporting) and annually thereafter. By 2030 (or 2033), reasonable assurance for scope 1 and 2 GHG emissions (and possibly limited assurance for scope 3) will be required.

What to do next?

1. Consult with your legal team to confirm whether your organization will need to comply with the new regulations
2. Partner with Third Economy to help you advance along one of the following tracks to get you regulation-ready:
 - **Just starting out with your climate disclosures?**
 - Complete a **climate regulation gap assessment** and develop a readiness strategy to address disclosure and capability gaps
 - Conduct a **scope 1 and 2 GHG inventory** to assess emissions within your financial or operational control
 - Assess which of the 15 scope 3 categories are relevant to your businesses by completing a **scope 3 materiality screening** and prepare for your scope 3 inventory
 - Identify and evaluate climate-related risks and opportunities and draft disclosures in **alignment with TCFD recommendations**
 - Support with **CDP reporting** (also aligned with TCFD) to align climate disclosures with regular reporting cadence and stakeholder expectations
 - **Do you have existing climate disclosures?**
 - Leverage existing voluntary disclosures that align with new requirements including **sustainability reports, CDP reporting, and TCFD-aligned disclosures** and advance and refine these disclosures to meet regulatory requirements
 - Complete a **climate regulation gap assessment** and develop readiness strategy to address disclosure and capability gaps
 - Conduct **ongoing scope 1, 2, and 3 GHG inventories** ensuring alignment with the GHG Protocol



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