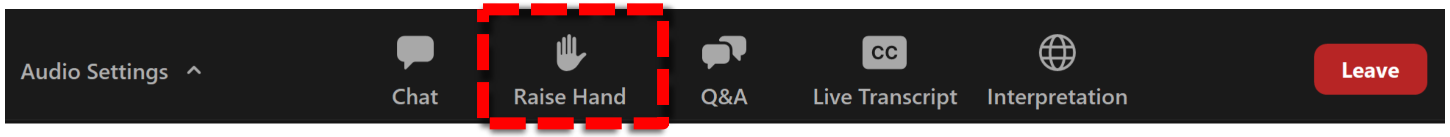
Kickoff Workshop: California Corporate Greenhouse Gas Reporting and Climate Related Financial Risk Disclosure Programs

March 29, 2025

CALIFORNIA AIR RESOURCES BOARD

Workshop Logistics

- Workshop Materials link: https://ww2.arb.ca.gov/our-work/programs/california-corporate-greenhouse-gas-ghg-reporting-and-climate-related-financial
- Zoom Orientation:
  - Raise Hand
  - Zoom phone participants may dial #2 to "Raise your Hand"
  - The facilitator will inform Zoom phone participants when they are unmuted during Public Comment
  - Dial *6 to mute or unmute



Agenda

Welcome and Opening Remarks

Staff Presentation

Guest Presentations

- Montrose Environmental
- University of California, Los Angeles Anderson School of Management

Public Feedback

Welcome and Opening Remarks

- Senators Scott Wiener and Henry Stern
- California Air Resources Board Chair Liane Randolph

California Air Resources Board (CARB)

CARB's mission is to promote and protect public health, welfare, and ecological resources through effective reduction of air pollutants while recognizing and considering effects on the economy. CARB is the lead agency for climate change programs and oversees all air pollution control efforts in California to attain and maintain health-based air quality standards.

FEDERAL

US EPA

Sets & enforces national air quality standards.
Regulates interstate transportation.

Trains
Planes
Ships

STATE

CALIFORNIA
AIR RESOURCES BOARD

Regulates mobile sources of air pollution, greenhouse gases & consumer products.

Cars
Trucks
Buses

LOCAL

Local Air Districts

Regulates stationary & local sources of air pollution.

Fireplaces
Factories
Refineries
Power plants

CARB's Enduring Commitment to Clean Air and Climate Leadership

- For over **50 years**, CARB has led the nation in protecting public health and reducing air pollution

- CARB's work is grounded in science, supported by different governors and legislative bodies, and strengthened by partnerships with communities, industries, and public health advocates

- Through regulatory innovation and collaboration, CARB has helped catalyze progress on smog, greenhouse gases, and clean transportation

"We have a legal—and moral—obligation to continue to pursue clean air."
– *CARB Chair Liane Randolph, May 2025 Press Conference*

California's Climate Leadership and Corporate Climate Transparency

- Driving bold climate action through sound climate policy
- California leads in climate legislation since Assembly Bill 32 (2006)
- 2030 target: At least 40% GHG reduction below 1990 levels
- 2045 target: Carbon neutrality & 85% GHG reduction below 1990 levels
- Recent climate laws: Senate Bills (SB) 253, 261, 219

Overview of Relevant Legislation

- California Climate Disclosure Laws: SB 253, 261, 219 (Health & Safety Code § 38532-38533)
- Aim to improve transparency on corporate climate-related risks and emissions
- Help inform consumers and investors of climate-related business considerations

SB 253: The Climate Corporate Data Accountability Act

- Affected entities – Doing business in California and >$1 billion in annual revenues
- Scope 1, 2, disclosure beginning 2026
  - Scope 3 in 2027
- Assurance milestones – starting with limited assurance
- Allows for use of existing reporting standards such as the GHG Protocol
- Fee authority for administration and implementation costs

SB 253 Enforcement Notice: Key Provisions

- No penalties in 2026 if companies show good faith effort
- Use existing data for initial emissions reports
- Enforcement Notice text available here

SB 261: Climate-Related Financial Risk Disclosure

- Affected entities – Doing business in California and >$500 million in annual revenues
- Biennial disclosure requirement
- Encourages alignment with existing frameworks
- Allows for the use of existing voluntary reporting frameworks, like the ISSB standards (evolved from the TCFD framework)
- Contract with a non-profit organization

SB 219: Timeline Extensions, Flexibility and Reporting Adjustments

How SB 219 amends and adjusts SB 253 & 261:

- Clarifies that CARB will set the schedule for Scope 3 disclosures (beginning in 2027)
- Adds parent-level consolidation option

Timeline: Rulemaking Process

Climate Disclosure Program Direction & Development

- 2023: California Legislature passed, and the Governor approved two pieces of legislation: SB 253 and SB 261
- 2024: SB 219 amended both and extending deadlines
- 2024-25: CARB information solicitation

Legislative direction and CARB information solicitation

Climate Disclosure Pre-Rulemaking

Informal Workshops
- Identify regulatory concepts
- Discuss alignment with legislative intent
- Solicit public and stakeholder input

Public workshops to develop concepts aligned with State goals

Climate Disclosure Formal Rulemaking

- SRIA Released
- Issue Notice of Proposed Rulemaking*
    - Draft regulatory text
    - Initial Staff Report
    - Environmental and economic analyses
- 45-day comment period
- Potential additional amendments and 15-day comment period
- Adoption by CARB at Board Hearing
- Final Staff Report with comment response
- Office of Administrative Law review
- Implementation begins

Formal process with specific timelines

* By law, CARB has one year to complete the final rule once initial proposal is published

International Efforts on Climate Disclosure

- Climate disclosure is a growing standard around the world, with numerous jurisdictions (across six continents) enacting or proposing their own programs:

  Examples: Australia, European Union, Japan, New Zealand

- Many jurisdictions are aligning their reporting standards with International Sustainability Standards Board (ISSB) standards
- EU is currently revising its program through an "Omnibus" package to simplify rules on its sustainability reporting standards

Information Solicitation

Information solicitation to inform implementation of California climate-disclosure legislation

- Opened December 16, 2024
- Closed March 21, 2025
- CARB received 261 responses from public commenters

Information Solicitation: Emerging Themes

Who Will be Covered – Definitions

- Doing Business in California
- Revenue
- Corporate Relationships

What will be Required

- Streamline with existing protocols and reporting
- Costs
- Regulatory considerations

Who Will be Covered? Direction from Statute

SB 253 and SB 261 use similar language to define what entities will be covered. The key aspects of the statutory text that commenters indicated require clarifications include:

- Define "Doing business in California“
- Define the term "Revenue“
- Define relationships between Parent and Subsidiary

Relevant SB 253 Text

"Reporting entity" means 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 with total annual revenues in excess of one billion dollars ($1,000,000,000) and that does business in California. Applicability shall be determined based on the reporting entity's revenue for the prior fiscal year.

Relevant SB 261 Text

"Covered entity" means a corporation, partnership, limited liability company, or other business entity formed under the laws of the 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 with total annual revenues in excess of five hundred million United States dollars ($500,000,000) and that does business in California. Applicability shall be determined based on the business entity's revenue for the prior fiscal year. "Covered entity" does not include a business entity that is subject to regulation by the Department of Insurance in this state, or that is in the business of insurance in any other state.

Solicitation Comments: Doing Business in California

Should CARB adopt the interpretation of "doing business in California" found in the Revenue and Tax Code section 23101?

Suggestions received in the solicitation commented:

- **Yes,** the Revenue and Tax Code definition is appropriate
- **No,** the Revenue and Tax Code definition is too broad

Initial Staff Concept:
Doing Business in California (SB 253)

The Revenue and Tax Code (RTC) definition provided in Section 23101 appears to be workable, with proposed modification.

- There can be advantages to harmonizing with definitions already codified in California code, with a minor modification proposed to RTC Section 23101 (a) and (b), to incorporate feedback
- RTC Section 23101 (c): No changes proposed as thresholds adjust automatically with inflation, helping ensure that the standard for “doing business in California” stays current and relevant over time
- Incorporate RTC Section 23101.5. No changes proposed as the section helps ensure that entities with meaningful economic activity are considered to be "doing business in California"

Initial Staff Concept:
Doing Business in California (SB 253)

§ 23101(a): "Doing business" means actively engaging in any transaction for the purpose of financial or pecuniary gain or profit.

AND

§ 23101(b): An entity is considered to be "doing business in California" for purposes of the reporting regulation if the entity is doing business (as defined in section 23101(a)), and any of the following conditions is met during any part of a reporting year:

(1) The entity is organized or commercially domiciled in this state.

(2) Sales, as defined in The Revenue and Taxation Code subdivision (e) or (f) of Section 25120 as applicable for the reporting year, of the entity in this state exceed the inflation adjusted thresholds of seventy hundred thirty-five thousand and nineteen ($735,019) (2024). For purposes of this paragraph, sales of the entity include sales by an agent or independent contractor of the entity. For purposes of this paragraph, sales in this state shall be determined using the rules for assigning sales under Sections 25135 and 25136, and the regulations thereunder, as modified by regulations under Section 25137.

(3) The real property and tangible personal property of the entity in this state exceed the lesser of the inflation adjusted thresholds of seventy-three thousand, five hundred two ($73,502) (2024) or 25 percent of the entity's real property and tangible personal property. The value of real and tangible personal property and the determination of whether property is in this state shall be determined using the rules contained in Sections 25129 to 25131, inclusive, and the regulations thereunder, as modified by regulation under Section 25137.

(4) The amount paid in this state by the entity for compensation, as defined in subdivision (c) of Section 25120, exceeds the inflation adjusted thresholds of seventy-three thousand, five hundred two ($73,502) (2024) or 25 percent of the total compensation paid by the entity. Compensation in this state shall be determined using the rules for assigning payroll contained in Section 25133 and the regulations thereunder, as modified by regulations under Section 25137.

Staff Questions: Doing Business in California

- What specific resources exist to identify businesses that would be subject to the RTC Section 23101 definition?
- Commenters stated that RTC Section 23101 may be overly broad for the purposes of SB 253, potentially including businesses that conduct too few transactions to merit inclusion under this regulation. Does staff's initial concept help address this concern?
- Commenters have suggested exemptions for various businesses sectors. What would be the rationale for such exemptions? Are those sectors covered in RTC Section 23101.5?

Solicitation Comments: Defining Revenue

- Revenue must be defined to accurately identify covered business entities
- Clarify if revenue thresholds are those of a Parent or Subsidiary
- Revenues generated by the direct and indirect parent companies of a subsidiary company should not be included in the calculation of the subsidiary company's gross revenues
- Income sources in the financial sector such as interest, fees, dividends, and investment income should not be considered revenue as they do not represent GHG emissions

Initial Staff Concept: Revenue

For the purposes of determining whether an entity meets the annual revenue threshold in SB 253 and SB 261, "total annual revenue" would be defined as gross receipts as set forth in California Revenue and Taxation Code § 25120(f)(2).

Staff Questions: Revenue

- Is the initial staff thinking regarding definition of revenue in alignment with current business practices?
- Should CARB define revenue as that of the Parent if a Subsidiary is doing business in California?
- If revenue is defined at the Subsidiary level, should the GHG reporting also be calculated at the subsidiary level?
- Are you aware of other potential existing definitions of "revenue" that CARB should consider?

Solicitation Comments: Corporate Relationships

Responses indicated that further definition and clarity is needed regarding Parent and Subsidiary relationships.

- What is the definition of a Parent and a Subsidiary?
- Is a definition of “level of control” needed?
- If a Subsidiary business is “doing business in California”, do the requirements of these regulations extend to the Parent company located outside of California?

Initial Staff Concept: Corporate Relationships

The initial staff concept is to leverage the Cap-and-Trade approach defining corporate relationships:

- Under the California Cap-and-Trade program, a corporate association exists when one entity has a degree of ownership or control over another entity
- A level of ownership or control of 50% or greater requires establishment of a Corporate Association in the Cap-and-Trade program

Staff Questions: Corporate Relationships

- Should the Cap-and-Trade approach of operational control be used to define a Parent and Subsidiary relationship?
- Are there other thresholds or considerations that CARB should include in an operational control requirement?
- If the Cap-and-Trade approach to operational control is deemed inappropriate, are there other suggestions for defining a parent and subsidiary relationship?

What Will Be Required?

Responses to the solicitation indicate that:

- Most commenters supported corporate GHG reporting but requested that CARB regulations be consistent with existing programs and requirements to minimize duplicity and costs
- Other comments noted that many existing protocols are voluntary and as such, may not present consistent information
- Many companies are reporting GHG emissions and financial risk information in accordance with other existing protocols
- Most companies indicated they report under voluntary protocols and programs

Discussion Questions

In response to the diversity of comments suggesting information that should be required, staff are seeking guidance on these follow-up questions:

- How can CARB support companies in making GHG disclosures more useful to investors and consumers?
- Are there modifications to existing protocols or standards that would help ensure consistent, comparable, and high-quality emissions reporting?
- What challenges do reporters face accessing data, and how can CARB help address them?
- How can CARB improve clarity and usability of reporting requirements to meet California regulatory standards and support all reporters?

SB 253 Discussion Questions

- **Scope 1 emissions (direct):** Generally well-understood and widely reported
- **Scope 2 emissions (indirect from purchased energy):** Reporting is common, complexities arise
- **Scope 3 emissions (value chain):** Reporting is less common; wide variability in data and reporting practices
  - How can CARB design a regulatory framework that supports iterative improvement in Scope 2 and 3 reporting?
  - Are current GHG protocol options for Scope 2 sufficient to meet California's clarity standards for rulemakings?
  - Should/how should CARB think about developing materiality thresholds that focus Scope 3 emissions on the most significant emissions categories- without undermining transparency? What factors should guide development of such materiality thresholds?

SB 261 Discussion Questions

- How should SB 261 be implemented by CARB? Regulation? Guidance?
- What are lessons learned from the ongoing EU (or other international) experience(s) that CARB should be aware of?
- Are there differences in how EU (or other international) regulators approach considerations such as clarity, enforceability, or flexibility that we should keep in mind as we design California's program?

Next Steps

- We want your feedback – stakeholder input is critical to shaping this program
- Sign up with the listserv to stay engaged – be notified of future public workshops and updates:

  https://ww2.arb.ca.gov/our-work/programs/california-corporate-greenhouse-gas-ghg-reporting-and-climate-related-financial
- Questions or Comments? Contact us at: ClimateDisclosure@arb.ca.gov
  - Input received via email will be posted to the public docket

Montrose Environmental Group

- Developed a comprehensive summary of various Greenhouse Gas accounting and reporting programs
- Programs covered:
  - U.S. Environmental Protection Agency Greenhouse Gas Reporting Program
  - Environment and Climate Change Canada Greenhouse Gas Reporting Program
  - CARB Mandatory Reporting Regulation
  - United Kingdom Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting Requirements
  - Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (and related guidance published by the GHG Protocol/WRI)
  - The Climate Registry
  - US EPA Scopes 1, 2, 3 Greenhouse Gas Inventory Guidance

University of California, Los Angeles Anderson School of Management

- The *UCLA Anderson Center for Impact* collected publicly disclosed sustainability data from the largest firms in the United States through its *Open for Good Initiative*

- The Center will give a presentation following the release of their 2025 *State of Corporate Sustainability Disclosure* report

- The report includes an assessment of climate disclosure reporting, current data gaps, and improvement opportunities for this rulemaking process to consider

Feedback / Questions

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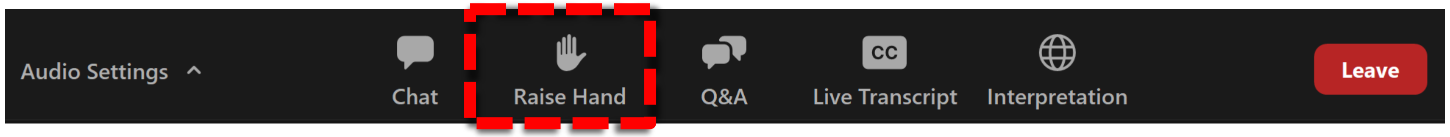

Public Feedback

- Feedback on initial staff concepts and identified themes
- Additional regulatory development concepts
- Understanding additional stakeholder needs