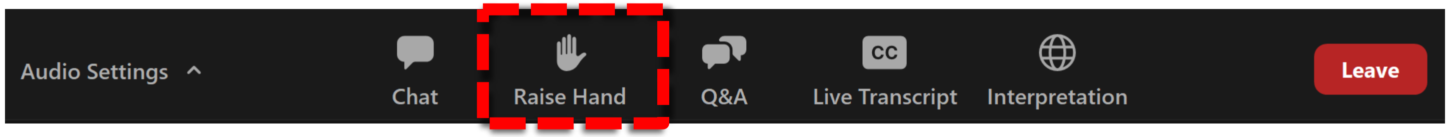
SB 253/261/219 Public Workshop: Regulation Development and Additional Guidance

AUGUST 21, 2025

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

1. **Welcome** – Program Background
2. **Regulation Development and Implementation** (SB 253/261)
   - “Who”: Covered Entities and Exemptions
   - “What”: Fee Regulation Concept
   - “How”: Further Guidance on Reporting
   - “When”: Timelines for Reporting Requirements
3. **Scope 3 Emissions and Assurance Criteria** (SB 253)
4. **Public Feedback**

CARB's Enduring Commitment to Clean Air and Climate Leadership

For more than **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*

Climate Disclosures Build on Two Decades of State Climate Action

- Landmark Climate Legislation - Assembly Bill 32 (2006)
- 2030 target: At least 40% GHG reduction below 1990 levels (SB 32)
- 2045 target: Carbon neutrality and at least 85% GHG reduction below 1990 levels (AB 1279)
- Existing CARB efforts to reduce GHG emissions include Cap-and-Trade, Low Carbon Fuel Standard (LCFS), and mobile source regulations
- Mandatory Greenhouse Gas Reporting Regulation (MRR) requires reporting of scope 1 emissions from large emitters
- LCFS requires scope 1 and 2 emissions reporting

Overview of Relevant Legislation

- California Climate Disclosure Laws: SB 253, 261, 219 (Health & Safety Code § 38532-38533) – “the 200s”
- 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

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

Regulatory Process to Implement the 200s

Pre-rulemaking recap

- Enforcement notice (December 2024)
- Information solicitation (December 2024)
- Public workshop (May 2025)
- FAQ release (July 2025)
- Public workshop (August 2025)
- All regulations must meet the APA's rulemaking standards, including the clarity standard.

Regulation Development and Implementation

SB 253/261

Identifying the “Who”: Updates on Definitions

Definitions from the 200s:

SB 253: “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.

SB 261: “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.

Identifying the "Who"
Update on Definitions: "Revenue"

- At the May workshop, staff considered defining total annual revenue as gross receipts as set forth in California Revenue and Taxation Code (RTC) § 25120(f)(2)
- Examples of feedback:
  - Gross receipts are not a suitable metric for gauging revenue due to data confidentiality limitations and lack of verification
  - Definition is too expansive

Identifying the "Who"
Update on Definitions: "Revenue"

Alternative option: "Revenue is the total global amount of money or sales a company receives from its business activities, such as selling products or providing services."

- This definition does not deduct operating costs or other business expenses
- This definition is consistent with metrics used by major data tracking and reporting industries, such as Dunn & Bradstreet, Standard & Poor, and Data Axle

Identifying the "Who" Update on Definitions: "Doing Business in CA"

At the May workshop, staff considered pointing to the Revenue & Tax Code definition provided in Section 23101:

§ 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 seven 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.

Identifying the "Who"
Update on Definitions: "Doing Business in CA"

- Staff are exploring existing databases of US-based companies that could be used to establish "doing business in CA"
- Limitations exist for using Franchise Tax Board data
- CA Secretary of State Business Entity database is publicly available and lists any entity with a designated agent for service of process in California
- Note: companies subject to the regulation will be responsible for compliance, even if not initially included on staff's list or outreach

Identifying the "Who"
Update on Definitions: Parent and subsidiary

- Based on the existing Cap-and-Trade regulation:

> "Subsidiary is a business in which another company (the parent or holding company) owns more than 50% of its voting stock. A subsidiary has a different legal business name than its parent company. This corporate relationship implies that the parent company has a controlling interest and can influence the subsidiary's operations, management, and financial decisions, even though the subsidiary operates as a separate legal entity."

- Staff's proposal is to identify subsidiaries through evaluation of commercial databases, cross-referenced with the Secretary of State database and/or the Franchise Tax Board database.
- Staff is seeking input on a process where companies may choose to self-report on parent-subsidiary relationships to avoid reporting for multiple entities under the same parent company.

Identifying the "Who"
Exempted entities

Based on stakeholder comments, staff proposes the following exemptions and invites public input:

- Non-profits
- A company whose only business in California is the presence of teleworking employees
- Government entities would not be covered and do not need an exemption because they are not formed under business entity laws as defined in HSC 38532 and 38533.
- CA Independent System Operator (CAISO) or a business entity whose only activity within California consists of wholesale electricity transactions that occur in interstate commerce.

Identifying the "Who": Preliminary analysis of covered entities

US-based companies w/global annual sales ≥ $500 million

8,817

Source: *Dunn & Bradstreet*

Businesses registered with CA Secretary of State with "Active" status

816,845

Source: *CA Sec. of State*

Entity or parent company name match

SB 261

4,160*

2,596*

SB 253

Fee Regulation Concept

SB 253/261 Implementation Fees: Background

- The 200s authorize CARB to assess an annual fee for the implementation and administration of the new reporting programs. Companies subject to regulation will be assessed the fee.
- CARB has experience with this kind of structure through its AB 32 Cost of Implementation (COI) Fee Regulation.
- COI Fee Regulation was adopted to support implementation of AB 32 and subsequently amended to support MRR, C&T, and LCFS.
- The COI fee is assessed per metric ton of CO_2e emitted.

SB 253/261 Implementation Fees: Concept

- For SB 253/261 implementation fees, Staff recommend issuing a “flat” fee per regulated entity
- Flat annual fee for each program calculated as: $\frac{Annual\ Program\ Cost}{Number\ of\ Covered\ Entities}$
- Companies with more than \$500M in revenue would annually pay the Climate-Related Financial Risk Disclosure Fund Fee (SB 261)
- Companies with more than \$1B in revenue would also annually pay the Climate Accountability and Emissions Disclosure Fund Fee (SB 253)
- Subsidiaries filing parent company reports still represent separate entities subject to fee
- Fee amounts will be determined based on how many entities are covered by the program and the annual cost of the program

SB 253/261 Implementation Fees: Covering the Cost of the Program

- CARB's program administration costs include a one-time cost to set up the program: $20.7M, temporarily funded through Greenhouse Gas Reduction Fund (GGRF) Fiscal Year (FY) 23/24 and 24/25)
- Ongoing costs of implementing 253/261 programs: $13.9M (not counting GGRF loan repayment)
- Fee will be adjusted annually for inflation

SB 253/261 Implementation Fees: Estimated Fee Per Covered Entity

Assumptions

- **Annual cost of implementation**: $13.9M
- **Entities subject to SB 253**: 2,596*
- **Entities subject to SB 261**: 4,160*
- 58% of overall implementation costs attributed to SB 253
- **Annual fee for SB 253 entities**: $3,106
- **Annual fee for SB 261 entities**: $1,403
- Reporting entities with more than $1B in revenue are subject to both fees
- Annual fees to be adjusted for inflation and fund deficit/surplus in future years

*Based on staff analysis of CA Secretary of State and Dunn & Bradstreet data. CARB will initiate a process to validate the preliminary list of covered entities

SB 253/261 Implementation Fees: Draft Timeline

- **Aug 21**: Public Workshop
- **Aug 21—Sep 11**: Public comment period for feedback on workshop concepts
- **Oct 14**: Notice of Proposed Rulemaking
- **Oct 17—Nov 30**: 45-day APA comment period begins
- **Dec 11—Dec 12**: Board consideration of proposed rulemaking (public Board Hearing)

Further Guidance on The 200s Implementation

Guidance on “How”
SB 261: Climate Risk Reporting

- Reports must be posted to entity’s website by January 1, 2026 and every two years thereafter
- CARB will post a public docket on December 1, 2025 for entities to post the public link to their reports
  - Docket scheduled to close July 1, 2026
- A number of resources exist for guidance on climate-related financial reporting:
  - Recommendations of the Task Force on Climate-related Financial Disclosures
  - TCFD’s Reporting Climate-Related Financial Information: Critical Introductory Materials
  - IFRS S2 Climate-Related Disclosures
  - IFRS Comparison of IFRS S2 and TCFD Recommendations
- CARB will provide guidance on minimum requirements for compliance with HSC § 38533

Guidance on “How”
SB 261: Minimum Reporting Requirements

- Entity may use one of several frameworks to meet disclosure requirements:
  - Final Report of Recommendations of TCFD (2017)
  - IFRS Disclosure Standards
  - A report developed in accordance with any regulated exchange, national government, or other governmental entity
- Each report submitted to CARB should contain a statement on:
  - Which reporting framework is being applied
  - Discuss which recommendations and disclosures have been compiled and which have not
  - Provide a short summary of the reasons why recommendations/disclosures have not been included as well as discussion of any plans for future disclosures

Guidance on "How"
Climate-related Risk: Principles

- Four overriding principles underpin the climate related risk disclosures, informed by TCFD (2017) and IFRS S2
  - Governance
  - Strategy
  - Risk Management
  - Metrics and Targets

Guidance on “How” Climate-related Risk: Governance

- Describe your organization’s governance structure for identifying, assessing, and managing climate-related financial risks. Details should include:
  - Management oversight of climate-related risks and opportunities and should provide a description pertaining to Board oversight of those climate-related risks and opportunities (if the reporting entity has a Board)

Guidance on “How”
Climate-related Risk: Strategy

- Describe the actual and potential impacts of climate-related risks and opportunities on the company’s operations, strategy and financial planning. This includes describing:
  - The climate-related risks and opportunities the organization has identified over the short, medium, and long term
  - The impact of climate-related risks and opportunities on the organization’s operations, strategy, and financial planning
  - The resilience of the organization’s strategy, taking into consideration the future impacts of climate change under various climate scenarios.

Guidance on "How"
Climate-related Risk: Risk Management

- Describe how the reporting entity identifies, assesses, and manages climate-related risks including a qualitative description of:
  - The process the reporting entity uses for identifying, managing and assessing climate-related risks, and how those considerations and processes are integrated into the organization's overall risk management

Guidance on “How”
Climate-related Risk: Metrics + Targets

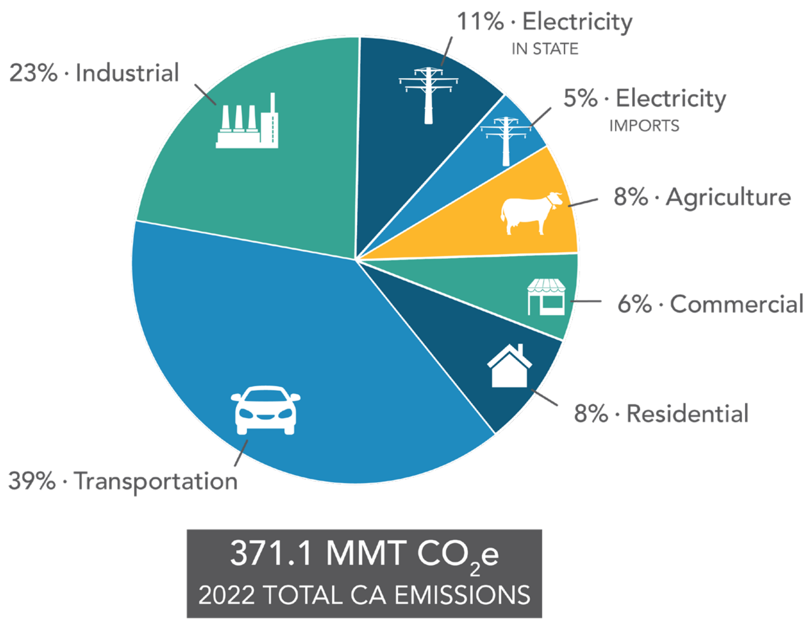
- Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
  - For a discussion of material relevance as used in this context, see TCFD 2017. If using a different framework, refer to that framework’s guidance

"When"
SB 253: Timing of Scope 1 and 2 Reporting in 2026

- Staff are proposing a June 30, 2026 implementation deadline for SB 253 Scope 1 and 2 reporting, which will be included in the fee regulation
  - We welcome public feedback
- Staff will post draft reporting templates for Scope 1 and 2 reporting by the end of September 2025 for public feedback
  - Option to include other actions that reduce greenhouse gases, such as investments in renewable electricity and gas, among others

SB 253: Scope 3 Emissions from Major Emitting Sectors

- We are on track with Scope 1 and 2, and already looking ahead to Scope 3 emissions
- AB 32 GHG Inventory: Transportation is one of the largest-emitting sectors in California (~50% with fuels included)



- Many transportation-related companies are already reporting Scope 3 emissions, which may guide covered entities in developing their own reports
- As part of CARB's public sessions on the Governor's ZEV EO (N-27-25), stakeholders requested stronger disclosures of GHG emissions from transportation-related companies

SB 253 Assurance Criteria

Existing Mandatory GHG Reporting Regulation Definition of Verification

A <u>systematic</u>, <u>independent</u> and <u>documented</u> process for evaluating a reporting entity's emissions data report against CARB's reporting procedures and methods for calculation and reporting of GHG emissions and product data.

- Systematic: organized, rigorous and thorough
- Independent: based on fact, unbiased, objective
- Documented: process, records, findings
- Judged against a set standard and to a given level of assurance
- Findings based on examination of objective evidence

Skills and Responsibilities of an Effective CARB-Accredited Verifier

- Do not advise and then review your own work
- Maintain independence and objectivity
- Act with integrity and honesty
- Review emissions data reports on behalf of CARB
- Focus on rigor and efficiency as required for the level of assurance

The Importance of Impartiality

- Conflict between self-interest and ability to maintain independence and objectivity
- Conflict of interest can be real or perceived
- Perceived COI can undermine public support and confidence in the quality of the reported data
- CARB already includes conflict of interest disclosures and rotation of verification bodies in other regulatory programs

Background: Assurance

Intended to increase user confidence in data and information

Three types of assurance: absolute, reasonable and limited

- Reasonable assurance for existing CARB regulations

Financial audits have high level of rigor

Limited Assurance Framework

- Limited review of data and controls
- Impartiality
- Assurance is given in the negative: "nothing has come to our attention that causes us to believe that the emissions data report is not materially correct"
- Lower confidence in completeness and accuracy
- Could include qualifiers around findings

Draft Implementation of Limited Assurance

- Sampling plans
- Reviews of data management systems
- Limited data checks
- Limited conformance checks
- Process documentation
- Log of any found and corrected errors by the reporting company
- Report and statement at the conclusion

Initial Staff Concept for Assurance

- SB 253 requires entities to seek third-party assurance of their GHG reporting
- Potential standards
  - ISSA 5000 (IAASB)
  - AA1000
  - ISO 14060 family
  - AICPA
- We welcome public feedback

CARB Oversight

- CARB may opt to audit assurance and reporting activities
- CARB retains all authority to review information submitted by reporting entities and assurance providers, and take enforcement action as appropriate

Feedback / Questions

1. Questions will be taken virtually through Zoom
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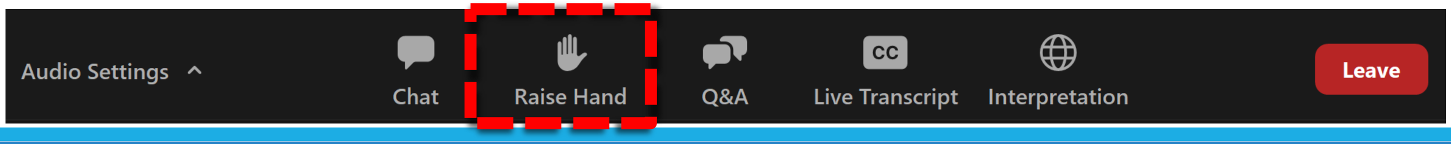

Next Steps

We want your feedback – stakeholder input is critical to shaping this program

Public docket will be open for three weeks for written feedback

Sign up with the listserv to stay engaged and 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

Note: Input received via email will be posted to the public docket