Ceres

March 17, 2025

Chair Liane M. Randolph
California Air Resources Board
1001 I Street
Sacramento, CA 95814

CC: Senator Henry Stern, Senator Scott Wiener

Re: Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219

Dear Chair Randolph and Staff,

Ceres appreciates the opportunity to provide feedback in response to the California Air Resources Board's (CARB) solicitation for information on the implementation of Senate Bills (SB) 253 and 261, as amended by SB 219. Once implemented, these landmark corporate transparency laws will help deliver standardized, high-quality disclosures of companies' climate-related financial risks to investors and consumers. These bills were passed, signed into law, and subsequently funded with significant company and investor support at every step of the way, and many companies are well prepared to comply with the laws' provisions based on their understanding of the enacted legislative text.

Ceres is a nonprofit advocacy organization whose Investor Network includes roughly 200 asset owners and managers with approximately $40 trillion in assets. Our Company Network includes more than 50 of the largest global companies and banks with whom we work on an in-depth basis on climate strategy and disclosure, among other issues; and our Policy Network includes companies with whom we work on a range of state and federal policy issues.

To provide CARB with companies' perspectives on the implementation of the California disclosure laws, Ceres convened a series of virtual corporate roundtables on January 29 and 30, 2025, and sent participants an online poll that mirrored CARB's solicitation for feedback. Over the course of two Ceres-hosted roundtables and one roundtable hosted by Accounting for Sustainability which Ceres helped moderate, we reached more than 100 climate and financial reporting practitioners representing over 70 companies, trade associations, and institutional investors. The number of companies that participated indicates the high level of interest and the importance of CARB's work. The participants represented a diverse variety of sectors, including energy, utilities, technology, apparel, finance, retail, food and beverage, telecommunications, and industrials. The companies varied in size and corporate structure, but nearly all participants represented entities that will be subject to the disclosure laws. We note that the companies represented at our roundtables are generally knowledgeable and active in addressing climate-related matters and hence may not be typical of all impacted entities generally. We have also engaged many companies through presentations and direct engagements.

The roundtables were held under the Chatham House Rule: participants were free to use the information they received, but statements could not be attributed to any individuals or organizations. All views expressed in this submission are either anonymized or presented in the aggregate. Each statement presented in this document is not necessarily representative of all participants' positions, although we tried to summarize the full range of feedback gleaned from the roundtables and poll responses.

Finally, companies subject to SB 253 and SB 261 uniformly request regulatory certainty as they build internal capacity and establish the controls and procedures necessary to comply with these laws. Predictability is critical to these businesses' ability to make informed decisions and allocate resources efficiently. We applaud CARB's solicitation of feedback while noting the proximity of the March 21 comment deadline to the July 1 statutory deadline for the Board to adopt regulations. We recognize the significant constraints that CARB's dedicated staff are working under and the multiple competing priorities before the Board. Still, the sooner CARB's regulations are communicated to covered entities, the better positioned those entities will be to comply in 2026.

And, in most cases, companies will not be starting from scratch as they prepare for compliance. In January 2024, Ceres convened a similar corporate roundtable with representatives from 18 companies or trade associations. A pre-roundtable survey showed that 93% of respondents felt either "very prepared" or "somewhat prepared" to comply with SB 253 and SB 261; 71% of surveyed companies were already reporting on climate metrics voluntarily, and 29% were already subject to mandatory reporting requirements internationally. All but one of the respondents were already reporting Scopes 1, 2, and at least one category of Scope 3 emissions data, and most were already receiving either limited or reasonable assurance on their emissions reporting. Feedback from our recent roundtables similarly affirmed that, while companies would appreciate clarity on the points in CARB's solicitation, they are well positioned to report in California and are generally seeking interoperability with existing reporting efforts elsewhere.

What follows is a summary of the corporate feedback Ceres received. For any follow-up questions, please contact Jake Rascoff, Director of Climate Financial Regulation, Ceres Accelerator for Sustainable Capital Markets (jrascoff@ceres.org).

Sincerely,

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General: Applicability

1. SB 253 and 261 both require an entity that "does business in California" to provide specified information to CARB. This terminology is not defined in the statutes.
    a. Should CARB adopt the interpretation of "doing business in California" found in the Revenue and Tax Code section 23101?

    Companies agreed that using California Revenue & Tax Code § 23101 would be the most consistent and straightforward way to apply the "doing business in California" test. Impacted entities (and stakeholders in general) have generally been referring to the California Franchise Tax Board's inflation-adjusted definition of "doing business in California" as informed by § 23101.

    Still, this definition leaves some ambiguity. One company pointed out that "revenue" is not defined in the laws; others asked whether nonprofits are in scope of the laws, based on the definition of engaging "in any transaction *for the purpose of financial gain* within California." Other issues raised included:

    - Asset managers have asked whether the fees they receive from managing assets are considered "engaging in a transaction."
    - Companies with virtually no operational presence in California but with one or more California-based employees have asked for clarity on whether paying an employee is considered a transaction (however, § 23101 does provide that amounts paid in California by the taxpayer for compensation are one possible trigger for "doing business").
    - Some international companies might do business in California via a U.S. subsidiary that, by itself, falls below the revenue thresholds for the disclosure laws, but the consolidated parent company exceeds the thresholds. Those companies would like clarification on whether they are expected to report, particularly if the U.S. subsidiary is a wholly or partly owned entity that operates independently.
    - Ceres has also heard from some nonprofit Medi-Cal providers that are funded by Medicaid and are technically organized as local government entities; those entities would appreciate clarification that they are not covered.

    b. Should federal and state government entities that generate revenue be included in the definition of a "business entity" that "does business in California?"

    Feedback on this question was limited and mixed. One respondent suggested exempting government entities from reporting but considering an amendment at a later date to bring in those entities and improve overall coverage. As mentioned above, nonprofit health care providers funded by Medicaid and organized as local government entities have asked to be exempted. However, two other respondents said that nonprofits and government entities should be covered.

    c. Should SB 253 and 261 cover entities that are owned in part or wholly owned by a foreign government?

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Feedback on this question was similarly limited; there was no discussion of it in the roundtables, but three respondents to the poll answered that entities owned by foreign governments should be covered. Ceres would also recommend that entities owned in part or wholly by foreign governments should be covered.

d. Should entities that sell energy, or other goods and services, into California through a separate market, like the energy imbalance market or extended day ahead market, be covered?

The sponsors of SB 253 and SB 261, Senators Wiener and Stern, wrote a letter to the Senate Daily Journal on January 29, 2024, clarifying their intent that out-of-state utilities not be considered in scope of the laws if their sole interaction with California is selling power into the state: "It was not our legislative intent to include such energy transactions within the scope of this reporting obligation, and we are therefore providing clarification to the Senate Daily Journal and to the California Air Resources Board as they proceed with implementation of both laws."

Ceres shares the sponsors' view on this question. Out-of-state entities that only do business in California through wholesale transactions in the Western Energy Imbalance Market and CAISO's Extended Day Ahead Market should not be covered by the laws. Ceres did not receive any feedback from companies to the contrary.

2. What are your recommendations on a cost-effective manner to identify all businesses covered by the laws (i.e., that exceed the annual revenue thresholds in the statutes and do business in California)?
    a. For private companies, what databases or datasets should CARB rely on to identify reporting entities? What is the frequency by which these data are updated and how is it verified?

    Ceres has surveyed various databases for estimates of the number of U.S. companies that exceed the revenue thresholds for the two laws. Ceres recently released a study with more details on this question. Because private company revenue data is inherently challenging to source, estimates of the number of companies covered by these laws vary widely depending on the source of the data. Ceres ultimately contracted with S&P Global to produce an analysis of the public and private companies that will likely be covered by SB 253 and SB 261; the full report with these findings is in CARB's public comment docket under the subject line, "Ceres Report – Companies Covered by the California Disclosure Laws: An Updated Estimate." S&P estimates 716 private companies with revenue exceeding $500 million, and 459 private companies with revenue exceeding $1 billion. Please note that we did not attempt to screen for companies "doing business in California" to reach these estimates. These findings are based on fiscal year 2022 revenue alone, under the assumption that an overwhelming portion (but not all) of the companies that meet the laws' revenue thresholds will likely do some amount of business in California.

Altogether, S&P estimates 2,675 companies, both public and private, with revenues over $500 million; and 1,971 companies with revenues over $1 billion. These figures differ from preliminary estimates that were conducted, which found that over 5,000 companies would likely be covered by SB 253 and over 10,000 by SB 261. Those preliminary estimates overstated the number of companies covered by the laws. This was due in large part to methodological differences: some databases separately list multiple subsidiary entities and branches under a controlling parent company, which does not accurately reflect the fact that most companies subject to the California laws will opt to report at the consolidated parent company level. This double counting of subsidiaries and branches leads to a significantly inflated count of private companies covered by the laws.

Aside from S&P, the other sources Ceres considered were D&B Hoovers, PitchBook, Data Axle, and Bloomberg (for public company data). Because the estimates from these sources vary widely, CARB might consider working directly with a financial information provider to ensure the data is cleaned, companies' branches are rolled into headquarter entities, and duplicate entities are excluded. Ceres' licensing arrangement with S&P Global did not include access to company-specific identifying information, so the figures above are simply aggregate estimates and, regrettably, do not help identify specific reporting entities.

b. In what way(s) should CARB track parent/subsidiary relationships to assure companies doing business in California that report under a parent are clearly identified and included in any reporting requirements?

CARB's initial goal should be to identify subsidiaries that are themselves operating companies, since those entities are more likely to report independently (although many will presumably opt to be included in the parent company's report and not to submit reports themselves). S&P Global defines an operating subsidiary as follows: "Control with a majority stake of 50% or more lies with any other company AND the stake is held for strategic reasons as opposed to being held for investment purposes." This definition excludes entities that have sold all of their assets to a single buyer and subsequently folded into the purchaser, since such a company is no longer operating and would not report independently. Financial data providers have methodologies for identifying operating subsidiaries.

The complicating factor with this work is that many companies have subsidiary entities that are technically independent, but purely as a function of corporate structural organization, not as an indication of how the company operates. Such companies should be weeded out. For example, a raw run of D&B Hoovers data for companies with revenue over $1 billion yields results such as: "Citigroup Inc.," "Citigroup Global Markets Inc.," "Citigroup Global Markets Holdings Inc.," "Citicorp Banking Corporation," and "Citibank, National Association." Or, to take another example: "Abercrombie & Fitch Co.," "Abercrombie & Fitch Holding Corporation," "Abercrombie & Fitch Management Co.," and "Abercrombie & Fitch Stores, Inc." In both these cases, each of the listed entities has a different revenue figure and could be mistaken for an independent reporting entity. However, under the field, "Ultimate Parent Company," they all share the same corporate parent: Citigroup Inc. and Abercrombie & Fitch Co., respectively. As a starting point, CARB should be looking to a data output similar to Ultimate Parent Company, regardless of whether the Ultimate Parent Company is a business entity established outside of the United States under the laws of a foreign jurisdiction.

Nearly all companies will choose to produce a single report at the corporate parent level, since climate risk information and emissions data are not collected at such a granular level throughout their operations. Filtering out subsidiary entities is unfortunately a case-by-case process that requires manual oversight, but financial data providers can do a lot of the work of weeding out entities that are unlikely to report.

General: Standards in Regulation

3. CARB is tasked with implementing both SB 253 and 261 in ways that would rely on protocols or standards published by external and potentially non-governmental entities.
    a. How do we ensure that CARB's regulations address California-specific needs and are also kept current and stay in alignment with standards incorporated into the statute as these external standards and protocols evolve?

Takeaway #1: Do not reinvent the wheel with California-specific reporting requirements; instead, ensure interoperability with other reporting standards.

Feedback from companies was unanimous: the most important goal of CARB's implementation should be to ensure interoperability with other reporting standards. Every company Ceres heard from is either already reporting its climate risks and greenhouse gas (GHG) emissions voluntarily or is subject to mandatory climate reporting requirements in jurisdictions such as the European Union—in most cases, both. As one practitioner stated:

> *Companies like ours are already grappling with the resource strain of complying with statutory reporting requirements across a double-digit number of jurisdictions. The purpose of reporting is to deliver meaningful, complete, consistent, reliable, and decision-useful information that drives real change. Divergent standards dilute this impact, creating unnecessary noise and reducing the utility of reporting for decision-making.*

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SB 261 and SB 253 were purpose-built for interoperability: they each rely on a common set of well-understood disclosure frameworks—namely the TCFD recommendations and the GHG Protocol, respectively—that have similarly underpinned other reporting standards globally. Companies are accustomed to reporting against these frameworks, which helps limit their compliance burden across multiple jurisdictions. But also, crucially, many investors have extensive experience analyzing TCFD- and GHG Protocol-compliant reporting, and the common structure of companies' reporting helps facilitate consistency and comparability for consumers of the information, which should be the objective of any mandatory disclosure regime.

There is more information in response to Sub-question 3(b) below about how companies would like to see CARB ensure interoperability with other standards.

Takeaway #2: Monitor updates to external standards and protocols to maintain flexibility for reporting entities.

All companies agreed that CARB should monitor updates to select third-party protocols and standards. As one respondent offered, "Internationally recognized standards organizations have the resources to update and maintain standards as science develops." One company suggested that CARB should specify whether California's regulations will "auto-update" when a new version of a standard (e.g., the GHG Protocol) is released, or if the regulations will instead refer to the version that was current at the time of the bills' passage. Consensus was that CARB should favor the former (permitting flexibility as standards evolve), rather than the latter (only accepting reports that reflect the latest version of the standards as of the laws' enactment). Another company suggested that CARB should allow submissions that comply with multiple versions of a given reporting standard (i.e., any of the 2-3 most recent versions of a standard at the time of reporting). For example, if the reporting year is 2028 and a standard-setter were to issue v2 of its disclosure guidance in 2027, a reporting company could use either v1 or v2 to publish its 2028 report.

Ceres' position is that CARB should auto-update to new versions of the GHG Protocol, while allowing submissions that comply with multiple versions of this standard.

Takeaway #3: California is also a leader in promoting transparency and integrity in the voluntary carbon market (VCM). CARB could provide guidance on how to disclose investments in voluntary carbon offsets and credits as an optional component of climate risk disclosure.

On the same day Governor Newsom signed into law SB 253 and SB 261, he also signed *The Voluntary Carbon Market Disclosures Act* (AB 1305), first-of-its-kind legislation that sets disclosure requirements related to the marketing, sale, purchase, and use of voluntary carbon offsets. Companies that purchase or use carbon offsets and make claims regarding the achievement of net-zero emissions or carbon neutrality must disclose on their websites specific information about the projects underlying the credits, as well as the protocol used to estimate emissions reductions and whether there is independent third-party verification of the claims.

With regards to SB 253 and SB 261, some companies bemoaned the gaps in the GHG Protocol as to how companies should uniformly account for their purchases of offsets and credits. With the exception of guidance on how to reflect the purchase of renewable energy certificates (RECs) in Scope 2 reporting, the GHG Protocol does not provide guidance on how to quantify, characterize, or account for mitigation impacts achieved by a reporting entity through the use of market-based instruments. As a result, companies have guidance on how to report only a fraction of the growing list of mitigation investments and climate action strategies they may implement across their value chains. Because ongoing revisions to the GHG Protocol are not expected to be completed until at least 2028, CARB could ensure that the use of market-based mechanisms by companies working to mitigate their climate impacts is transparently and consistently characterized, by incorporating or endorsing recognized sources of target accounting guidance.

One company suggested, regarding the implementation of SB 253 and SB 261, that CARB should specify how companies should disclose "carbon credits and real emissions reductions from other market-based mechanisms as line items in their emissions inventories or net carbon footprint. To date, disclosure bills and laws do not mention carbon credits or anticipate the use of market-based mechanisms (e.g., book and claim) to account for carbon reduction investments while other laws in California specifically regulate offsets claims. Policymakers should clarify the interplay between carbon disclosure and claims laws." Another company agreed that corporate reporting rules and claims rules should be aligned in a way that permits companies to voluntarily account for their investments in carbon credits and other market-based instruments: "Companies should be able to use existing, complementary guidance on accounting for investments in credits and market-based mechanisms. California already values carbon credits via the compliance market, and the state should have a similar mechanism for valuing voluntary investments. Companies should have flexibility on the format of reporting these investments alongside their Scope 1-3 reporting, until such time guidance exists."

Any guidance from CARB on this topic could be included in the implementing regulations for SB 253, since it would be natural for a company to disclose its investments in voluntary carbon credits and other market-based instruments alongside its GHG emissions inventory so that consumers of the disclosures could view the two in parallel. However, SB 261 also contains the provision: "To the extent a climate-related financial risk report contains a description of a covered entity's greenhouse gas emissions or voluntary mitigation of greenhouse gas emissions, the state board may consider the covered entity's claims if those claims are verified by a third-party independent verifier" (Health and Safety Code

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Section 38533(b)(4)). As such, this guidance could also apply to entities covered by SB 261.

Ceres emphasizes that any reporting on companies' investments in offsets or credits as a component of these climate disclosure laws should be optional, and that companies may not use such investments to "net out" their gross emissions inventories. SB 253 was designed to shed light on companies' absolute GHG emissions—critical information that investors use as a proxy for a company's transition risk exposure, and consumers and other stakeholders may use to ascertain a company's contribution to the climate crisis. Nothing in CARB's implementation of SB 253 or SB 261 should diminish that core objective. With that said, as the VCM continues to grow rapidly, disclosure regulations can help raise the integrity bar on the supply of these instruments and create greater clarity for companies on which investments are legitimate.

For more information on this topic, Ceres directs CARB to a separate comment letter in CARB's public comment docket. This other submission—led by Environmental Defense Fund and Conservation International and cosigned by several other organizations, including Ceres—expands on the question of how to account for market-based climate mitigation instruments in the absence of clear inventory accounting guidance.

b. How could CARB ensure reporting under the laws minimizes a duplication of effort for entities that are required to report GHG emissions or financial risk under other mandatory programs and under SB 253 or 261 reporting requirements?

Takeaway #1: CARB must accept reports prepared by companies to meet other governmental jurisdictions' climate reporting regulations, as well as voluntary reports that satisfy the requirements of the two California laws. Again, companies' top focus is interoperability. Nearly every company Ceres heard from is already reporting voluntarily (e.g., via the CDP questionnaire) and is preparing to comply with the EU Corporate Sustainability Reporting Directive (CSRD) and/or mandatory disclosure regulations under development elsewhere that adhere to the International Sustainability Standards Board (ISSB) Standards issued by the IFRS Foundation. These reporting standards are already focused on interoperability. The CDP is aligned with both the TCFD and the ISSB S2 climate disclosure standard, and the CSRD and ISSB standards have a high degree of alignment.

Companies do not want to submit a new, bespoke report to satisfy the California laws. The proliferation of disparate reporting requirements makes the exercise of climate disclosure a compliance headache and a box-checking exercise; it detracts from the purpose of driving meaningful change at companies and supplying consumers of the information with decision-useful insights. As one company suggested: "Reporting requirements should be based upon internationally recognized standards so that all companies can use the same methodology for all their reporting requirements, [which] allows for submission for a multitude of requirements in different jurisdictions. This allows for increased harmonization and avoids introducing significant compliance risks and costs for companies."

Many companies have been prioritizing preparation for the EU CSRD and view it as an "umbrella" regulation, because it is more comprehensive and labor-intensive than other disclosure regimes and therefore prepares companies well for the California laws. Those companies are eager for CARB to accept CSRD-compliant management reports for "substituted compliance" with the California laws, just as other companies would like to submit CDP questionnaires (provided they contain all the information mandated by SB 253 and SB 261). As one company stated, this approach "ensures consistency and minimizes the burden on companies already navigating complex reporting requirements across multiple jurisdictions." The company elaborated:

> *For our company, each new statutory reporting requirement requires over 2,000 person-hours to implement, with the level of effort heavily influenced by the degree of harmonization across jurisdictions. Beyond the significant cost implications, the introduction of yet another customized reporting framework yields diminishing returns... Leveraging these [existing] frameworks not only supports efficiency for companies like ours, but also helps CARB save resources and avoid duplicative efforts. The infrastructure is already in place; utilizing it will drive better outcomes for all stakeholders.*

It is worth noting that on February 26, 2025, the European Commission released proposed omnibus simplification legislation that would make significant modifications to the CSRD and other sustainability directives and regulations. Among the changes being considered is a two-year delay for most CSRD reporting companies, as well as a reduction in the number of entities covered by the CSRD. However, there are several mitigating factors for CARB to consider. First, many U.S.-based multinational companies will still be expected to comply with the CSRD in short order (large EU subsidiaries of U.S. companies would be reporting on fiscal year 2027 data in 2028 under the omnibus proposal—a delay from the current directive, but still a near-term consideration). Second, none of the substantive amendments under consideration for the CSRD would impact the directive's core climate reporting provisions, and whatever legislation emerges from the omnibus process will still cover all the data points required under SB 261 and SB 253. Third, companies subject to the CSRD have already been investing significant resources to build the capacity to comply with this ambitious directive, and though they may now have more time to prepare, those preparations will be useful for their California reporting. The omnibus must still undergo trilogue negotiations among the European Union's three legislative bodies, but whatever updated version of the CSRD is ultimately adopted, companies would be best served if CARB accepts CSRD-compliant reports to satisfy the California laws. The proposed EU delay also underscores the importance of the California laws in supplying investors and other consumers of climate risk reports with decision-useful disclosures as soon as possible.

A harmonized approach is consistent with the statutory provisions of both SB 261 and SB 253. SB 261 permits covered entities to submit a report prepared "pursuant to a law, regulation, or listing requirement issued by any regulated exchange, national government, or other governmental entity," or one prepared "voluntarily using a framework that meets the requirements" of the law. SB 253, meanwhile, stipulates that reporting should be "structured in a way that minimizes duplication of effort and allows a reporting entity to submit... reports prepared to meet other national and international reporting requirements, including any reports required by the federal government, as long as those reports satisfy all of the requirements" of the law. It is unfortunate that SB 253 does not contain a provision mirroring SB 261 that explicitly allows compliance to be satisfied by "voluntarily using a framework that meets the requirements" of the law. However, we are hopeful and confident that CARB will accept voluntary reports for compliance with SB 253, to satisfy the requirement that the regulations are "structured in a way that minimizes duplication of effort."

Takeaway #2: CARB should give reporting entities a "menu" of acceptable reporting frameworks that would satisfy compliance with the laws.
One company suggested, to widespread agreement, that CARB should "regularly release specific guidance for reporting under existing global requirements or standards that are considered sufficiently compatible with the California rules." In other words, CARB would give reporting entities a menu of acceptable frameworks to follow—including, at a minimum, the ESRS standards that underpin the EU CSRD; the ISSB Standards (which are already recognized by name in both California laws); and the CDP questionnaire (provided a company supplies all applicable information required by the laws and makes the report publicly available without a paywall). This approach would minimize duplication of effort without sacrificing transparency, and it would give companies sufficient flexibility as other reporting standards develop and mature. As another company summarized: "We don't want the Wild West, but give us some options."

One company elaborated: "Reporting should be consistent with internationally recognized standards and frameworks (such as IFRS/ISSB, ESRS, GHGP, ISO) in order to promote harmonization, compliance efficiency, and comparability. Companies should be allowed to select amongst internationally recognized reporting standards that impose substantially similar disclosure requirements."

Takeaway #3: For SB 261 compliance, while opinions are split on how to treat the distinction between the TCFD recommendations and the ISSB Standards, CARB should align with the ongoing transition from TCFD to ISSB disclosure.

SB 261 mandates that companies disclose "climate-related financial risk, in accordance with the recommended framework and disclosures contained in the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) published by the Task Force on Climate-related Financial Disclosures, ***or any successor thereto***..." [emphasis added].

In July 2023, the Financial Stability Board announced that the "ISSB sustainability disclosure standards... can be seen as a culmination of the work of the TCFD, which developed voluntary disclosure recommendations for companies in 2017, at the request of the FSB, in order to address the fragmentation in reporting schemes at the time." Having fulfilled its remit, the TCFD disbanded in October 2023 and the IFRS Foundation assumed responsibility for monitoring companies' TCFD-compliant climate disclosures as of 2024. IFRS announced, "Companies applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* will meet the TCFD recommendations as the recommendations are fully incorporated into the ISSB Standards." Specifically, "The requirements in IFRS S2 are consistent with the four core recommendations and eleven recommended disclosures published by the TCFD," and "a company applying IFRS S2 will provide all of the information covered by the TCFD recommendations."

The ISSB Standards are more regulatory in nature than the TCFD recommendations: IFRS S2 provides more granular guidance on how companies should structure their reporting, compared to the principles-based TCFD. Accordingly, ISSB is better suited to form the basis of a mandatory reporting regime, which is why the International Organization of Securities Commissions (IOSCO) endorsed the standards as "appropriate to serve as a global framework for capital markets to develop the use of sustainability-related financial information in both capital raising and trading," and called on its "130 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards..." As of February 2025, more than 35 jurisdictions "have decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory frameworks." These jurisdictions together reflect over 55% of the world's GDP, not counting the United States.

SB 261 therefore creates some ambiguity as to whether reporting entities should adhere to the TCFD recommendations or the ISSB Standards. The ISSB Standards are unquestionably the successor to the TCFD recommendations. If California seeks to institute a reporting regime that is most closely aligned with those of other jurisdictions around the world, the ISSB Standards are the clear choice. With that said, voluntary adoption of the ISSB Standards by U.S. companies is still nascent, and TCFD-aligned reporting remains far more common.

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Some companies urged CARB to support the immediate adoption of the ISSB Standards for SB 261 compliance. As one practitioner told Ceres: "From my perspective, this has to be ISSB going forward. It has TCFD embedded into it, but there are a lot more questions around water, for instance, that are not in the TCFD general disclosures. The TCFD is technically done, so it makes more sense to use ISSB language, and it makes it easier for us to align across the landscape." Multiple roundtable participants agreed with that sentiment, and some wondered why SB 261 referenced the TCFD recommendations at all when the Task Force is now defunct. However, other companies urged a more cautious approach. One said: "We have used TCFD for voluntary climate risk disclosure in our annual sustainability report, and we are now going through the CSRD-aligned double materiality process for EU compliance. We'd like to leverage either of those existing disclosures rather than do something different for California." Another agreed: "We will not be subject to the ISSB Standards [in international jurisdictions] ... Don't require companies to report ISSB, but permit it."

Ceres' position is that CARB should permit flexibility: allowing for TCFD-aligned reporting initially, while encouraging a shift to the successor ISSB Standards within the next few years. One company suggested: "IFRS S2 is the better reporting standard than TCFD, but it also goes further than most companies are able to report right now. CARB should make an explicit statement that you can align your reporting to the latest TCFD recommendations, and then at some point that gets dropped and only ISSB is accepted thereafter."

Ceres also notes that digital tagging of sustainability information could make disclosure processes more efficient and result in comparable disclosures that are more useful to investors. Ceres encourages CARB to follow trends in the uptake of digital tagging in order to consider making it an option for reporting entities in the future. In April 2024, the ISSB released the IFRS Sustainability Disclosure Taxonomy, which allows XBRL-based digital tagging of disclosures and reflects the requirements of the ISSB general and climate-related Sustainability Disclosure Standards. Over time, we expect regulators worldwide to allow or require the use of this taxonomy. This regulatory uptake, as well as improvements to the tools used to collect and analyze tagged information, will demonstrate more clearly the benefits of a digital taxonomy and digitally tagged reporting.

Takeaway #4: Accepting multiple reporting frameworks could reduce comparability, but institutional investors do not see it diminishing the overall benefits of these laws.

For more than 20 years, Ceres has advocated for mandatory climate disclosure because our investor members demand standardized, decision-useful information to inform their portfolio-wide capital allocation and investment stewardship decisions. The longstanding status quo of inconsistent voluntary reporting has resulted in misleading disclosures; the information has not been "investor-grade."

That is why the adoption of the U.S. Securities and Exchange Commission's (SEC) climate risk disclosure rule was so crucial. Investors want these disclosures in the same place they get all other material information: in SEC filings, digitally tagged and presented in a uniform format alongside audited financials and other important disclosures. But the agency voluntarily stayed that rule amid ongoing litigation, and under the Trump Administration the Commission will work to roll back the rule it adopted in March 2024.

For U.S. investors, there is no substitute for the inclusion of climate-related disclosures in SEC filings. However, the climate disclosure landscape has also evolved significantly in recent years—most notably with the widespread global adoption of the ISSB Standards and the extraterritorial reach of the ambitious EU CSRD. Now, climate-related disclosures will be treated in many jurisdictions with the same level of rigor and scrutiny that traditional financial information receives. In the current vacuum of federal leadership, California has assumed an indispensable role in guaranteeing that all sizeable U.S. companies supply climate risk and emissions information in the common language of widely accepted global standards.

Given the newfound ubiquity of climate reports prepared in accordance with rigorous mandatory disclosure regimes, CARB should not seek to establish a compliance framework specific to California. The Board is not a securities regulator and is not appropriately resourced to oversee the design and review of a novel corporate risk reporting framework. Although consumers of the information undoubtedly benefit from uniform presentation of disclosures, the time and resources required to establish such a system in California is not a worthwhile tradeoff—and regardless, CARB can still provide the arguably more important service of consolidating these reports in one location. Institutional investors often contract with data providers to scrape climate risk data from various sources rather than analyzing individual companies' reports themselves, so CARB would be doing a valuable service just to host a central repository of PDFs and links to companies' websites. As one investor told Ceres: "The last thing we want is to make companies populate a new type of form. If there must be some separate reporting obligation, maybe a simple option to upload a link to your submission. CARB doesn't even need to host the report; if an analyst can verify that the link is live, problem solved."

c. To the extent the standards and protocols incorporated into the statute provide flexibility in reporting methods, should reporting entities be required to pick a specific reporting method and consistently use it year-to-year?

Most companies responded that reporting entities should ***not*** be required to pick a specific reporting method and consistently use it year-to-year. The majority opinion was that entities should be allowed flexibility in selecting reporting methods (particularly as new methods develop over time and companies can dedicate additional resources to reporting), as long as those reporting methods are transparently disclosed and companies are always adhering to an allowed methodology (see the "menu" approach suggested in Takeaway #2 under Sub-question 3(b) above). As one company reasoned: "It is common practice in accounting and reporting to rely on a consistent method annually, and it is often expected by auditing/assurance providers. However, flexibility should be allowed for changes in methods... with rationale and reconciliation well-documented."

Ceres has a general preference for consistency in year-to-year reporting, because it improves the comparability and reliability of the disclosures for investors and other consumers of the information. With that said, Ceres also recognizes the importance of giving reporting companies flexibility to adopt new reporting methods as those methodologies develop over time. As several respondents suggested, if reporting entities do switch their reporting methods from one year to the next, they should clearly document the changes and make every effort to help consumers of the disclosures understand the differences.

General: Data Reporting

4. To inform CARB's regulatory processes, are there any public datasets that identify the costs for voluntary reporting already being submitted by companies? What factors affect the cost or anticipated cost for entities to comply with either legislation? What data should CARB rely on when assessing the fiscal impacts of either regulation?

In 2022, Ceres and Persefoni jointly commissioned ERM to produce a report, "Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors" (May 2022). The report was based on a survey of 39 corporate issuers with a combined market capitalization of more than $3.8 trillion (specific respondents' market capitalization ranged from less than $1 billion to over $200 billion, and employee counts ranged from less than 1,000 to over 250,000), and 35 institutional investors with a combined $7.2 trillion in assets under management. ERM submitted the report to the comment file for the SEC's climate-related disclosure rule on June 16, 2022. The survey found that, on average, issuers were spending $533,000 annually on climate-related disclosure. This assessment of average annual issuer costs was similar to the SEC's preliminary estimate in its 2022 proposed rule of $530,000 in annual issuer costs after the first year of implementation ($150,000 for internal costs and $380,000 for outside professional costs; see p. 373). Meanwhile, the ERM survey found that institutional investor respondents were spending an average of $1.4 million annually to collect, analyze, and report climate data to inform their investment decisions. There has been extensive focus on the compliance costs associated with mandatory climate disclosure for corporate issuers, but less attention on the costs investors bear to navigate a fragmented, inconsistent information landscape.

In April 2023, Ceres and Persefoni submitted an addendum to the SEC's comment file providing additional information about the ERM survey, including investor respondents' demographics as well as cross-tabulations of demographics with other metrics of interest. This facilitates the evaluation of the representativeness of the survey sample and offers new insights regarding both the costs and benefits of climate-related disclosure rules. The submission also counters arguments from three trade associations that suggested significantly higher costs for implementation of the rule than the SEC was estimating.

CARB should look to the cost-benefit analyses the SEC conducted for both its 2022 proposal and its 2024 final rule. The SEC assessed more than 24,000 public comments on the rule and methodically conducted a detailed review of compliance cost estimates from commenters and other public sources. The agency took a conservative approach that likely overstates compliance costs, and it is important to note that reporting entities' compliance costs decrease over time: "For example, a registrant disclosing climate-related information for the first time is likely to incur initial fixed costs to develop and implement the necessary processes and controls. Once the company invests in the institutional knowledge and systems to prepare the disclosures, the procedural efficiency of these processes and controls should subsequently improve, leading to lower costs in subsequent years" (p. 781-782).

Using a conservative approach to a per-company estimate, the SEC said of its final climate disclosure rule: "Depending on the registrant, annual compliance costs (averaged over the first ten years of compliance) could range from less than $197,000 to over $739,000" (p. 740). Incremental compliance costs would be lower for registrants that already provide these disclosures (either voluntarily or as required by other laws or jurisdictions), which many registrants do. However, the SEC also dropped Scope 3 emissions reporting from its final rule, the most significant of several changes the agency made to its proposed rule to reduce compliance burden. As such, CARB should also be sure to consult the cost-benefit analysis for the proposed rule that included Scope 3.

Companies also provided Ceres with feedback on the factors that influence their cost of reporting. One company said: "Cost of compliance for affected entities is a function of in-house labor, software, consultant support as needed, assurance/verification, legal review, and reporting fees." Similarly, "The factors that affect the cost of compliance include staffing and related resources for data collection, management, analysis, and reporting (including internal audit and executive review), along with costs for third-party auditing and assurance services." Another company said: "Factors that affect the cost for [us] to comply with data reporting legislation include but are not limited to timing of deadlines (e.g., if data collection timelines have to be accelerated), requirements for 'new' data (e.g., data that has not previously been reported), attestation costs, and resources required for reporting format."

As more companies move forward with reporting under the EU CSRD, the ISSB Standards, and other disclosure regimes, they will continue developing processes and systems to track and disclose their climate-related risks that will help lower their cost of compliance in California. The incremental costs of complying with the California laws will ultimately depend in large part on the extent to which the laws' provisions overlap with other jurisdictional requirements and third-party reporting frameworks. As we have discussed at length throughout this submission, California's laws are designed to be highly interoperable with those other reporting frameworks.

5. Should the state require reporting directly to CARB or contract out to an "emissions" and/or "climate" reporting organization?

Opinions on this question were roughly evenly divided. Many companies felt that CARB should manage the collection of reports in-house, particularly to avoid the significant delays that could be associated with the procurement process for a contracted solution. Others felt that CARB and reporting entities would both be better served if CARB contracted with an experienced climate or emissions reporting organization. Below is a selection of companies' responses to this question:

Option #1: The state should require reporting directly to CARB or allow CARB to accept and aggregate reports submitted elsewhere.

- "CARB should count public website disclosures or accept emissions disclosures directly. Data collection resulting from the disclosure law is an essential government function and should not be delegated to a third party. So too are the development of reports to the Legislature based on data collected by law. GHG emissions and climate-related financial risk data submitted by companies should not be provided to an NGO that may use the data for purposes not anticipated by the law, or for fundraising or the selling of services."
- "Companies should have the flexibility to report on their carbon emissions through a publicly available report on a platform of their choosing. Preference is for a platform of entities' choosing, vs. a CARB-specific or third-party platform."
- "The state should require reporting directly to CARB. Allow flexibility in reporting—do not require completion of a standardized questionnaire."
- "A procurement process of this scale would go through Department of Technology, and you're looking at a one- to two-year runway just to get the funding... It could really cross wires with the statutory reporting deadlines specified in legislation."
- "Generally indifferent as long as [the state] applies a consistent format and process for submission. However, perhaps [companies] should be exempt from reporting into a specific system if [the report] is publicly available, to help minimize effort for those already doing public reporting."
- "We don't want CARB to be a tech company. But we would also be really wary if they contracted out to someone who created a new type of CDP questionnaire. It would ruin the cross-compatibility [of reporting efforts] and cause more problems."

Option #2: The state should contract out to an emissions and/or climate reporting organization.

- "CARB probably shouldn't develop this themselves; it really needs to be plug-and-play. But we don't want some sort of complex, bespoke data entry platform—we don't want another CDP. Ideally, it's just a link. Maybe there's some sort of tagging that can ease comparability and make this data decision-useful, but we don't want a new, manual data entry system."

- "The state should contract out to an emissions/climate reporting organization. Align with CDP. They already have the infrastructure, and the majority of companies are also already reporting to CDP today."
- "Recommend reporting to an existing entity like CDP."
- "If companies are utilizing the CDP platform for a simple and specific SB 253 / SB 261 template, then we see no problem. But we would not be in favor if we're required to complete a full CDP Climate questionnaire – that would create unnecessary reporting burden on companies who would not otherwise complete the report."

Although a few companies favored reporting to CDP, other roundtable participants and poll respondents raised concerns about the scoring element of CDP's assessment process, which they said deters some companies from reporting to CDP. Other companies mentioned the paywall, which would constrain public access to companies' reports unless CDP were to restructure its licensing arrangements for this purpose.

The laws require companies' disclosures to "be made publicly available," either on the company's own website (SB 261) or on the digital platform created by CARB or an emissions reporting organization (SB 253). Ceres simply reinforces the view, expressed by multiple companies, that all reports must be free of paywalls, easily found, and otherwise readily accessible to the general public.

6. If contracting out for reporting services, are there non-profits or private companies that already provide these services?

Below is a selection of responses to this question:

- "If an NGO is utilized, the NGO should have successfully demonstrated the administration of an independent, publicly accessible registry that does not score or grades submissions (e.g., The Climate Registry) or operate a fee-for-service model."
- "The Net-Zero Data Public Utility is a centralized repository of company-level greenhouse gas emissions data that is available for free in a user-friendly interface. It is supported by several organizations, including Bloomberg, CDP, and S&P, to organize structured emissions data for the public."
- "CARB should consider contracting out to The Climate Registry, a California-based nonprofit organization leading in supporting organizations with emissions reporting and reductions, with founding ties to and experience with the State of California."
- "Leveraging CDP's infrastructure will enable CARB to achieve its objectives more effectively while fostering consistency and maximizing the impact of reporting efforts."
- "We do not do CDP reporting. We're already reporting through The Climate Registry and using the GHG Protocol."
- "The entire University of California system could be tapped and organized to do this with students, professors, and administrative professionals. It can be done in a manner

that is easily and annually replicated and can tap into UC business schools to access experts in accounting, finance, regulation, procurement, investment, etc."

SB 253: Climate Corporate Data Accountability Act

7. Entities must measure and report their emissions of greenhouse gases in conformance with the GHG Protocol, which allows for flexibility in some areas (i.e., boundary setting, apportioning emissions in multiple ownerships, GHGs subject to reporting, reporting by sector vs. business unit, or others). Are there specific aspects of scopes 1, 2, or 3 reporting that CARB should consider standardizing?

   Consistent with the overarching push for maximal interoperability, most companies urge CARB to conform as closely as possible to the GHG Protocol and avoid customizing California's emissions reporting requirements. One company stated concisely: "Strongly against CARB creating unique standards or reporting requirements." As a different company put it: "Give companies the flexibility to use established voluntary reporting boundaries for compliance. Many companies have been disclosing GHG emissions in all three Scope categories for years. In pursuit of interoperability and global consistency, CARB should give companies flexibility to use established voluntary reporting boundaries for compliance." Another respondent opined:

   > *CARB should allow entities to measure and report their emissions of greenhouse gases in conformance with The GHG Protocol, or another protocol that meets the standards of The GHG Protocol, such as The Climate Registry's (TCR) General Reporting Protocol (GRP). The GRP is built on the GHG Protocol but includes additional requirements and specific guidance tailored to TCR's reporting framework. For example, TCR provides more detailed sector-specific guidance and mandates independent verification for reported data. Entities should be allowed to report in conformance with either protocol to comply with SB 253.*

   The ISSB Standards, like SB 253, require the use of the GHG Protocol. However, the IFRS S2 standard also specifies requirements to help standardize aspects of GHG emissions disclosures (see IFRS S2 paragraph 29(a)). CARB should ensure that its implementing regulations for SB 253 do not conflict with the IFRS S2 requirements, to minimize regulatory fragmentation and complement companies' ISSB-aligned reporting efforts.

   One respondent did suggest that CARB might consider "standardizing carbon dioxide equivalent global warming potential timescales (e.g., 20-year vs. 100-year modeling) and reinforcing use of the latest science (e.g., IPCC's 6th Assessment Report as opposed to 4th or 5th) for reporting." The same respondent proposed that "CARB may also consider standardizing Scope 2 disclosures by focusing on market-based emission factors, rather than requiring disclosure of both market- and location-based Scope 2 emissions."

   Another company suggested that CARB provide more clarity on materiality thresholds for Scope 3: "CARB should provide guidance which allows companies to report Scope 3 categories based on whether they are material (percentage or more of their total emissions); or on the categories of Scope 3 emissions where the company has a reduction goal. Our company third-party verification included a materiality threshold of either +/- 5% quantitative per scope; or qualitative based upon requirements of reporting criteria, in alignment with [The Climate Registry] guidance." On this point, Ceres would note that the GHG Protocol Scope 3 Standard permits the use of both secondary data and primary data to calculate Scope 3 emissions. Secondary data relies on industry average data, financial data, or other proxy data to estimate emissions. It is recommended that companies start with a Scope 3 screening exercise using secondary data to determine where hot spots – or places with significant climate emissions and risk – exist in their value chain. Once hot spots are identified, a company may want to collect primary data to better understand and manage those emissions. The GHG Protocol Scope 3 Standard recommends this approach so that companies prioritize data collection efforts for activities that are expected to offer the most significant GHG emissions reductions and are most relevant to the company's business goals.

8. SB 253 requires that reporting entities obtain "assurance providers." An assurance provider is required to be third-party, independent, and have significant experience in measuring, analyzing, reporting, or attesting in accordance with professional standards and applicable legal and regulatory requirements.
    a. For entities required to report under SB 253, what options exist for third-party verification or assurance for scope 3 emissions?

    Companies emphasized that assurance providers vary in cost, size, experience, and specialty, including both boutique consulting firms and traditional accounting firms, particularly the Big Four. One company said, "Many financial auditing firms, big and small, are able to provide assurance for Scopes 1, 2, and 3 emissions according to accepted assurance standards." Another respondent said, "The key work in carbon accounting is 'accounting.' The Big Four already have significant involvement and interest in this area. They are also formally involved with major global professional associations that oversee and provide guidance on accounting." These include the AICPA & CIMA, the Institute of Management Accountants, Financial Executives International, the IFRS Foundation, and the Public Company Accounting Oversight Board. The respondent suggested that CARB could collaborate with these global organizations to ensure auditing and verification requirements "are appropriate for the situations at hand." One company also requested that CARB clarify whether it would accept an assurance report from a non-U.S. audit firm if a foreign company with operations in California decided to file a report consolidated at the parent company level.

    Another company observed that the pool of firms assuring Scope 3 emissions is smaller than the pool of assurance providers for Scope 1 and 2 emissions, although the supply of firms assuring Scope 3 "seems to be steadily increasing." The same company stated that "limited assurance is practical for Scope 3 emissions, but reasonable assurance would be extremely time- and resource-consuming for limited increased value," a sentiment shared by multiple companies. A different company added: "Assurance for Scope 3 emissions should remain at no more than a limited assurance level until there is global consensus on how to execute on a higher level of assurance. At this time, given the assumptions and modeling involved in Scope 3 emissions reporting, a higher assurance standard is not available to companies." Ceres notes that SB 253, as modified by SB 219, states only that assurance engagements for Scope 3 emissions "shall be performed at a limited assurance level beginning in 2030," but these companies may be concerned that the provision permitting CARB to "establish an assurance requirement for third-party assurance engagements" of Scope 3 emissions on or before January 1, 2027, could allow room for a reasonable assurance requirement.

One company offered: "Carbon emissions disclosures should be subject to third-party assurance with regulations providing for a reevaluation of standards as science develops. Internationally recognized standards should be used to accredit assurance providers so that a single assurer can be used for global compliance. Companies should have flexibility to select an assurance provider, provided they meet international standards."

Separately, with regards to the cost of assurance, one company suggested: "CARB should consider excluding assurance requirements [for SB 253] where data has already been verified through other compliance frameworks and programs to reduce compliance costs (e.g., MRR)."

b. For purposes of implementing SB 253, what standards should be used to define limited assurance and reasonable level of assurance? Should the existing definition for "reasonable assurance" in MRR be utilized, and if not why?

Although a few companies supported using the existing definition of "reasonable assurance" in CARB's Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR), multiple companies suggested avoiding the definition in MRR and instead harmonizing the definitions of limited and reasonable assurance with those in other mandatory disclosure regimes:

- "The definition under MRR is vague, [and we] recommend adopting industry standard definitions (e.g., CSRD calls out that conclusion of a limited assurance engagement is usually provided in a negative form [while] reasonable assurance engagement is provided in a positive form)."
- "We urge CARB to standardize its requirements with those of ISSB and CSRD. Aligning with these established global standards will ensure simplicity, consistency, and efficiency for all stakeholders. A unified approach minimizes complexity, reduces the reporting burden on companies, and enhances the comparability and utility of reported information. Keeping it simple and aligned will drive more impactful outcomes while avoiding unnecessary duplication."
- "CARB may also consider using language directly from The GHG Protocol: *Limited assurance provides a 'negative opinion' that no errors were detected.*

Reasonable assurance provides a 'positive opinion' that all assertions are valid... The highest level of assurance that can be provided is a reasonable level of assurance. Absolute assurance is typically not provided since it is not feasible to test 100 percent of the inputs to the assessment."

- "[Refer to] International Standard for Assurance Engagements ISAE 3000 (Revised)."
- "Not sure which standard should be used, but it seems that reasonable assurance defined in MRR could get quite unreasonable and burdensome depending on how much the auditor will perform. It seems certain flexibilities for certain sectors... and de minimis sources will be important."
- "With respect to definition of limited and reasonable assurance, we would like to suggest that CARB consider ISO 14064-3:2019. This is in line with the criteria for verification that our company received third-party validation against (verification statement). I believe that CIMA and AICPA standards in the stayed SEC rule were developed for assurance related to financial information - the kind of assumptions and calculations underlying GHG emission reporting would be different than that of financial reporting."

Ceres would also point CARB to the explanations the SEC provided in the adopting release for its final climate-related disclosure rule:

- Limited assurance is equivalent to the level of assurance (commonly referred to as a "review") provided over a registrant's interim financial statements included in a Form 10-Q:
  - "The Commission explained in the Proposing Release that the objective of a limited assurance engagement is for the service provider to express a conclusion about whether it is aware of any material modifications that should be made to the subject matter (e.g., the Scopes 1 and 2 emissions disclosure) in order for it to be fairly stated or in accordance with the relevant criteria (e.g., the methodology and other disclosure requirements specified in proposed Item 1504). See Proposing Release, section II.H.1 (citing, for example, AICPA's Statement on Standards for Attestation Engagements (SSAE) No. 22, AT-C section 210). In such engagements the conclusion is expressed in the form of negative assurance regarding whether any material misstatements have been identified" (Footnote 1090, p. 264).
- Reasonable assurance is equivalent to the level of assurance provided in an audit of a registrant's consolidated financial statements included in a Form 10-K:
  - "The Commission explained in the Proposing Release that the objective of a reasonable assurance engagement, which is the same level of assurance provided in an audit of a registrant's consolidated financial statements, is to express an opinion on whether the subject matter is in accordance with the relevant criteria, in all material respects. A reasonable assurance opinion provides positive assurance that the subject matter is free from material misstatement. See

Ceres

Proposing Release, section II.H.1 (citing, for example, AICPA SSAE No. 21, AT-C sections 205 and 206)" (Footnote 1091, p. 264).

9. How should voluntary emissions reporting inform CARB's approach to implementing SB 253 requirements? For those parties currently reporting Scopes 1 and 2 emissions on a voluntary basis:
   a. What frequency (annual or other) and time period (1 year or more) are currently used for reporting?

      Companies uniformly stated that annual reporting of one year of data at a time is the current industry standard. CARB should permit companies to align reporting to their fiscal year data (e.g., October 1 - September 30).

   b. When are data available from the prior year to support reporting?

      Consensus among companies is that data are generally available six to nine months after the end of a company's fiscal reporting year, although the availability of data does not necessarily mark the end of the reporting process, and many companies expressed a preference for the ability to report in Q4. End-of-year data are compiled in Q1 but are only ready for reporting after the assurance process concludes near the end of Q2. One company observed: "Data supporting the carbon footprint can lag the close of the year by a number of months, as much as 4 months after the close of a year/period. Requiring reporting of assured carbon footprint data in early Q1 is a stretch for most organizations. Q2-Q3 reporting or 'as available' would be strongly preferred." Another company elaborated, "Data from the prior year is typically available within 3 months following the end of the fiscal year. Third-party limited assurance verification typically takes an additional 4 months following data completion."

      There is more information in response to Question 10 below about realistic reporting timelines.

   c. What software systems are commonly used for voluntary reporting?

      Below is a selection of responses to this question:
      - "The industry utilizes a variety of software systems to support data collection and analysis for carbon footprinting, including internally developed, custom software that meets the unique needs of a business. Other business software commonly underlies carbon input data, such as central financial accounting systems, inventory management software, and vehicle/asset tracking tools."
      - "Several software systems are used for voluntary reporting, including but not limited to ERP systems for procurement (e.g., Oracle, SAP, Workday, Sage Intacct, etc.), carbon accounting platforms for calculating emissions (e.g., Watershed, Persefoni, Net Zero Cloud, etc.), and carbon footprint registries for reporting (e.g., CRIS5 by The Climate Registry, etc.). Spreadsheet-based

databases and calculators are also frequently used to research and download emission factors, calculate non-linear emissions estimates, and track internal data as necessary."

- "Spreadsheets sitting on websites that are freely available for download and use [are] not software. These free versions should always be checked for an 'As of' date stamp. Carbon accounting has standards, but emissions factors and standards do change over time. Software has a 'back-end' that should be constantly doing the work, updating calculations and methodologies, and making data available to the licensed user whenever they need and want it."

SB 261: Climate Related Financial Risk Disclosure

10. For SB 261, if the data needed to develop each biennial report are the prior year's data, what is the appropriate timeframe within a reporting year to ensure data are available, reporting is complete, and the necessary assurance review is completed?

    Companies were resoundingly dissatisfied with the requirement in SB 261 that reports be submitted on January 1. One company summed up the sentiment: "January doesn't make sense. You're either going to be reporting data that is a year stale, or you're submitting reports to California prematurely. It has to be a timeframe that follows the CSRD or other standards. It feels bizarre to put this compliance date before other disclosure regulations." Companies all agreed that a reporting date later in the year would allow for more up-to-date data, and that companies should have flexibility to set a reporting date that aligns with their fiscal year. Companies favor as much flexibility in deadlines as possible after fiscal year close—some requested a full 12 months, which aligns with CSRD requirements (more information below). A few companies suggested that they could get the work done within six to nine months after the end of a company's fiscal reporting year, similar to the timeframe they recommended for SB 253, but other companies objected to that expedited timeline and asked for a full year. Generally speaking, the more flexibility CARB can provide on reporting timeframe, the better. Below is a sampling of additional input from companies:

    - "We'd push for 12 [months], which is in line with CSRD requirements. This eases the burden and also creates more synchronization with other reporting regimes globally."
    - "Our company's fiscal year runs January through December. Utilities subject to other CARB regulations in the second and third quarters (such as the June 2 deadline for MRR and the California Energy Commission Power Source Disclosure Annual Reports, which were due July 29, 2024 and subsequently extended to August 30) will need additional time to collect all of the appropriate data, finalize emissions calculations and begin the third-party validation process. With third-party verification taking an additional four months to complete, moving the reporting deadline to end of the year (fourth quarter) would allow reporting entities, particularly those in California, the necessary time to properly verify and have the data assured by a third party before reporting it to the state."
    - "An allowance of 9-12 months after fiscal year end is appropriate to ensure that there is sufficient time to collect and verify data and prepare reporting without interfering

with most companies' financial statement filings and other disclosures that are due within a short time following fiscal year end."

- "Companies completing their first climate-related financial risk disclosure should budget up to 7 months to complete the report, depending on the intended level of detail to be shared, plus additional time for third-party assurance as needed."
- "Require [both] GHG emissions and climate-related financial risk by June 30 for data from the prior year."
- "It should be required within 6 months of a company's fiscal year end to allow for sufficient time."
- "The January 1 reporting date is really making this different. It's a different train of thought than other global compliance schemes."
- "Regulations and global standards are already making climate reporting align with financial reporting. We need to stay focused on this alignment."

For one example of how other regulations treat the reporting timeline: the EU CSRD provides under Article 40d, "Publication," that reporting entities "shall publish their sustainability report, together with the assurance opinion... within 12 months of the balance sheet date of the financial year for which the report is drawn up." Deloitte clarified in a set of frequently asked questions: "The CSRD should be applied for financial years starting on or after January 1, 2024. Therefore, a company that is subject to the first-stage requirements and has a non-calendar-year-end such as June 30 would be required to report under the CSRD for the fiscal period ending June 30, 2025 (i.e., reporting in late 2025)." This sort of company-specific flexibility helps ensure that companies are always providing up-to-date information as soon as it is available.

As another example, the ISSB Standards require an entity to provide its sustainability-related disclosures at the same time as its related financial statements. Therefore, for any reporting entities that opt to adhere to SB 261's provision allowing ISSB-aligned reporting, any requirements to report sooner than the entity's applicable financial statement reporting deadline would create a reporting challenge for preparers.

11. Should CARB require a standardized reporting year (i.e., 2027, 2029, 2031, etc.), or allow for reporting any time in a two-year period (2026-2027, 2028-2029, etc.)?

Companies nearly unanimously responded that CARB should allow reporting for any time in a two-year period. Unless CARB is able to amend the statutory January 1 reporting date in its implementing regulations for SB 261, this would be the only mechanism to allow reporting entities the flexibility to align with their fiscal years. This approach would also mean that companies are always providing slightly outdated data: on January 1, 2026, companies would submit reports based on 2024 data; on January 1, 2028, they would submit reports based on 2026 data; etc. The preferable solution would be for CARB to accept reports at the end of the year, rather than January 1, and for reporting years to be standardized. As one company said: "Aligning on a standardized reporting year will give companies certainty for planning purposes and allow for comparability of disclosures." Consumers of the disclosures would undoubtedly favor this approach. Although SB 261 reports are due biennially, this would at least ensure that all companies' reports cover the same years.

12. SB 261 requires entities to prepare a climate-related financial risk report biennially. What, if any, disclosures should be required by an entity that qualifies as a reporting entity (because it exceeds the revenue threshold) for the first time during the two years before a reporting year?

    Most respondents were unclear on what this question was asking, but one company suggested: "Companies should only be required to report in the next reporting period. That will allow smaller companies that reach the threshold in a two-year period adequate time to plan and comply without placing on them unnecessary burdens."

13. Many entities that are potentially subject to reporting requirements under SB 261 are already providing other types of climate financial risk disclosures.
    a. What other types of existing climate financial risk disclosures are entities already preparing?

       As discussed throughout this comment letter, nearly every company Ceres heard from is already reporting voluntarily via sustainability reports and/or the CDP questionnaire. Many companies are also preparing to comply with the EU CSRD and mandatory disclosure regulations in other jurisdictions that are adopting the ISSB Standards. Several companies mentioned the UK TCFD (although the UK is moving towards endorsement and adoption of the ISSB Standards), and one mentioned Australia's mandatory climate disclosure law, which also aligns with the ISSB Standards.

       Several other companies mentioned SEC disclosure obligations. Although implementation of SEC's climate disclosure rule was stayed last year amid litigation and will not proceed under the Trump Administration, one company pointed out: "Even if the SEC's climate rules are not ultimately implemented, the SEC has provided long-standing formal guidance (SEC Release 33-9106) on how its existing disclosure rules apply to climate change matters, including financial risks related to climate change." This company elaborated:

       > *Material risks must be publicly disclosed by companies subject to reporting under the Securities Exchange Act of 1934 through filings with the U.S. SEC under current federal law. The definition of "financial materiality" under SB 261 remains unclear, and a parallel state-level disclosure regime that applies similar, but not identical, concepts of materiality to public companies will create confusion for investors (and significant compliance burdens). If financial materiality will be considered, confirm that material climate-related financial risks disclosed to the SEC are acceptable with no additional filing.*

The company quoted above was referencing the SEC's February 2010 interpretive guidance on climate risk disclosure, which outlined the Commission's views with respect to existing disclosure requirements as they apply to climate change matters. Although some companies—including the one quoted here—are diligent about disclosing material climate-related risks in SEC filings, Ceres must also note that the SEC's 2010 guidance generally did not prove effective, which is why the SEC ultimately promulgated a climate-specific disclosure rule. Ceres issued a 2014 report that found that among the S&P 500 companies that made climate disclosures, most companies' disclosures in SEC filings were very brief, provided little discussion of material issues, and did not quantify impacts or risks. Companies that disclosed climate information provided significantly more detailed information in their voluntary, standalone sustainability reports than in their mandatory SEC filings. Furthermore, SEC staff reviewed nearly 53,000 annual reports submitted between 2016 and 2022 to determine how many contained any of the following keywords: "climate change," "climate risk," or "global warming." In recent years, only 36 percent of filings contained any keywords. Prior to 2020, the percentage hovered below 20 percent (p. 611-613). And this was merely any mention of climate change; where these disclosures did exist, there was no guarantee that they were useful. This is all to say: if CARB accepts SEC filings for compliance with SB 261, it should make clear that companies must supply all information required under California law. One company summarized: "Current U.S. SEC reporting differs from SB 261 in that it does not require the reporting of the management and oversight of climate-related financial risks independent of materiality, and any reporting/statement is only required to the extent a company has determined that a climate-related financial risk is material."

b. For covered entities that already report climate-related financial risk, what approaches do entities use?

Companies mentioned TCFD, ISSB, CDP (aligned with TCFD), EU CSRD, and U.S. federal securities laws (Item 105 of Regulation S-K, which stipulates that "a company's risks are disclosed pursuant to well-established principles of materiality, supported by existing regulatory guidance and judicial interpretations"). See discussion of SEC disclosures above.

c. In what areas, if any, is current reporting typically different than the guidance provided by the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures?

Because SB 261 specifically requires that a company disclose "its climate-related financial risk*"* in accordance with the TCFD recommendations, companies have expressed confusion about CARB's expectations around the amount of detail companies should provide. Will companies be expected to disclose against all four pillars of the TCFD recommendations (governance, strategy, risk management, and metrics and targets), or only against the risk management pillar? The metrics and targets pillar includes disclosure of Scope 1-3 GHG emissions; will CARB direct reporting entities to disregard that recommendation unless the entity is also subject to SB 253? Ceres believes that the intent of SB 261 was to require reports that are fully aligned with all pillars of the TCFD recommendations (except for emissions disclosure, which is covered under SB 253), but companies expressed that the legislative text alone leaves room for ambiguity.

Because Ceres believes that the clear intent of SB 261 was for reports to adhere to the entirety of the TCFD framework, we would like to see CARB clarify that all four pillars of the TCFD recommendations should be covered in companies' SB 261-compliant reports. We also note that the TCFD treats a company's climate transition plan as one component of its strategy to address climate-related risks, and a member of the TCFD Secretariat has stated that the Strategy recommendation and related guidance "implicitly cover the key aspects of transition plans that should be disclosed." The TCFD also issued more direct guidance in 2021, Guidance on Metrics, Targets, and Transition Plans, which provided reporting entities with considerations around the disclosure of transition plans, characteristics of effective transition plans, and example disclosures. Transition plan disclosures are critically important to investors, and Ceres would like to see CARB point to the relevant TCFD guidance and explicitly ask for transition plan disclosure in its implementing regulations.

One company expanded on this request for clarity:

> *[We need] CARB to provide clarity and guidance on how they will interpret the recommendations within the four pillars. The TCFD recommendations and guidance documents themselves are ambiguous and give lots of room for companies to develop decision-useful, forward-looking disclosures for their stakeholders. However, this is a potential issue when the disclosure is subject to a compliance reporting regime. For example, in the Strategy pillar under recommended disclosure c), how many scenarios are required to be SB 261-compliant? How often is a new analysis required? Every two years will be a financial and time burden for companies. Is a qualitative approach appropriate or is a quantitative approach required?*

d. If not consistent with the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures, are there other laws, regulations, or listing requirements issued by any regulated exchange, national government, or other governmental entity that is guiding the development of these reports?

Companies again mentioned the ISSB Standards and EU CSRD.