ANTHESIS LLC COMMENTS ON IMPLEMENTATION OF CALIFORNIA CLIMATE-DISCLOSURE LEGISLATION: SENATE BILLS 253 AND 261, AS AMENDED BY SB 219

Anthesis is a global sustainability consulting firm with services spanning areas such as GHG inventories, Science-based Target setting, climate risk, ESG strategy and reporting, nature and biodiversity, sustainable supply chains, among other topic areas. We support clients from across sectors in navigating the challenges of integrating sustainability into commercial performance and increasingly responding to mandatory reporting requirements. Anthesis appreciates CARB's leadership in proposing and implementing regulations to increase transparency on corporate GHG emissions and climate-related financial risk. There are systemic risks associated with climate change, and standardized reporting will help to shed light on the presence and magnitude of these potential risks. Anthesis appreciates the opportunity to comment on the proposed regulation and CARB's consideration of feedback received.

General Comments

In addition to the responses provided below on the implementation questions posed by CARB, Anthesis has comments on other areas of the regulation for CARB to provide additional clarity and guidance. Anthesis encourages CARB to provide further guidance and definition on how affected entities should apply the concept of materiality to their disclosure. Given that these reports will not be published alongside financial reports, should companies apply a financial materiality approach aligned with the SEC definition of materiality, or otherwise? What threshold should companies apply when considering which climate-related financial risks to disclose? Any guidance on the application of materiality to climate-related financial risks for reporting purposes will support companies in determining what to disclose and contribute to comparable reporting.

CARB should also provide clarification on whether any quantitative analysis is required to inform the disclosure of climate-related financial risks. Should companies apply a financial analysis to inform this determination? Will companies need to disclose financial value associated with identified climate-related financial risks?

<u>Responses to specific questions:</u>
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 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?

Response: CARB could adopt the IFRS S2 standard, which many jurisdictions have taken action to adopt as mandatory reporting or are considering adoption of the standard. This will reduce duplication of efforts while providing consistent and comparable information to stakeholders. IFRS S2 provides clear guidance on reporting requirements and metrics, with consideration of reasonable cost and efforts incurred by the reporting entity. Adoption of a single reporting framework, such as IFRS S2, will simplify report content for end users. Applying a 'comply or explain' approach to reporting, the IFRS S2 standard will promote increased disclosure and transparency on climate-related risks while encouraging affected entities to advance disclosure year over year.
To help ensure reporting under the laws minimizes duplication of effort for entities that are required to report GHG emissions or climate-related financial risk under other mandatory programs, CARB could annually provide a list of mandatory reporting regimes that would meet the requirements (e.g., CSRD/ESRS, UK climate disclosure rule, etc.).

b. 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?
Response: Affected entities should be allowed to adjust their reporting methods year-to-year so long as they provide an explanation of the change including any methodological changes, implications for reporting and rationale for the adjustment.

SB 253: Climate Corporate Data Accountability Act

4. Entities must measure and report their emissions of greenhouse gases in conformance with the GHG Protocol,1 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?
Response: The GHG Protocol is the leading GHG accounting standard and methodology for organizations to measure and manage their GHG emissions. Most companies have been measuring their GHG emissions in alignment with the GHG Protocol for many years. Setting different or separate standards is not recommended as it would increase the reporting burden for companies and have implications on past year's GHG inventories, base-year inventories and any GHG reduction targets already validated. Our recommendation is for

CARB's guidance to specifically call out the GHG Protocol as the GHG emission accounting standard to report scope 1, 2 and 3 GHG emissions of an organization under SB253.

5. 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?

    Response: There are several organizations recognized in the market as third-party GHG assurance providers and verifiers. They typically provide assurance or verification for all 3 GHG scopes. Making verification a requirement ensures that GHG emissions are correctly, consistently and completely calculated and reported – which could be especially important for Scope 3, the most complex of the 3 scopes within GHG emission accounting. However, these verification services come at a cost for the reporting entity and may have financial implications.

    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 assurance2" in MRR be utilized, and if not why?

    Response: ISO 14064-3:2019 Greenhouse gases - Part 3: "Specification with guidance for the validation and verification of greenhouse gas assertions" defines principles and requirements for verifying and validating GHG statements, and is commonly referenced by third-party assurance providers.

6. 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?

    Response: annually

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

Response: For most companies GHG inventories for the previous year are not ready until March. For companies that report to the EPA under Sub part W, the data has been due to the EPA at the end of March. But it then undergoes review by the EPA and is not finalized until June or July. Assurance cannot be obtained until after the data is finalized. CARB should not put a specific time deadline on when companies have to submit their GHG data, but should make it clear companies have to report their data for the previous year before Q4 of the following year.

SB 261: Climate Related Financial Risk Disclosure

7. 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? **Response: Reporting timelines should be consistent with SB 253, which may require up to 6 months for data collection, verification and assurance. A reporting deadline in Q3 or Q4 of the reporting year would allow for companies to obtain the appropriate data and reviews required for a complete and robust report.**
8. 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.)? **Response: CARB should implement a standardized reporting year so that affected entities are following the same timelines and reporting on comparable information. This will also facilitate more robust review and analysis by selected third-party of submitted reports in a comparable and timely manner.**
9. 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?

   Response: Companies should be required to report if they exceed the revenue threshold for the prior 2 consecutive years.
10. 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?

    Response: Companies are reporting on climate-related financial risks through TCFD reports, CDP responses, and IFRS S2 responses. Some jurisdictions have already adopted mandatory climate risk reporting

requirements which affected companies are reporting on and/or preparing for such as IFRS S2 in Australia and Hong Kong. Affected EU companies have also started preparing for CSRD compliance, where ESRS E1 requires detailed disclosure of climate-related financial risks.

Many companies also mention climate related risks in their Form 10K reports.

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

Response: Since its formation in 2017, many companies have followed the TCFD recommendations to disclose their climate-related financial risks. The CDP Climate Change questionnaire has also driven corporate climate risk disclosure and is aligned with TCFD and IFRS S2.

In terms of the approaches and methods companies have applied in identifying and assessing their climate risks for disclosure purposes, many companies leverage climate scenario analysis to assess physical and transition risks, as per TCFD recommendations. Application of existing Enterprise Risk Management frameworks and assessment criteria often inform this evaluation. This effort also requires stakeholder engagement to gather input from a range of individuals as to how climate has impacted the business in the past and how it may be impacted in the future.

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?

Response: Many companies align their climate risk reporting with the TCFD recommendations through a TCFD report or index. However, the way that SB261 is written is vague in the extent to which companies are required to align with TCFD or IFRS S2. CARB should provide additional guidance on the specific metrics and/or areas of disclosure they are looking for to satisfy compliance requirements. For example, will companies only be required to report their identified climate-related financial risks as per TCFD Strategy recommendations, or will companies need to also report climate risk related governance and metrics and targets? At the regulation stands today, many companies are left with a lack of clarity on what is required to report at a minimum.

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?

Response: An increasing number of jurisdictions are considering and adopting the IFRS S2 standards for mandatory climate risk reporting, including Australia, UK, Singapore, Japan and others. We see value in CARB adopting IFRS S2 to align with this global trend in climate risk reporting and to provide further clarity for affected entities. We also encourage CARB to provide guidance on the minimum requirement for compliance. The current rule is vague and leads to many open questions around what is required at a minimum to be compliant with the regulation and avoid any noncompliance penalties.