March 20, 2025

California Air Resources Board
1001 I Street
Sacramento, CA 95814

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

To the members of the California Air Resources Board:

PricewaterhouseCoopers LLP appreciates the opportunity to provide input to the California Air Resources Board (CARB) as it works to develop regulations in support of California Senate Bill (SB) No. 253, *Climate Corporate Data Accountability Act* (SB 253) and SB No. 261, *Greenhouse gases: climate-related financial risk* (SB 261), both as amended by SB 219, *Greenhouse gases: climate corporate accountability: climate-related financial risk*. We are pleased to provide our perspectives, which incorporate our experiences providing assurance on sustainability-related disclosures, and more broadly as a global professional services firm, as well as our history of engagement and proactive thought leadership on sustainability matters. Our views are also informed by our interactions with investors and companies.

High-quality reporting

Making high-quality, climate-related data publicly available will allow stakeholders to better understand how companies are responding to climate-related risks and opportunities. The effectiveness of climate disclosures in advancing this objective is directly proportionate to the quality of such disclosures. In order to elicit high-quality, consistent, and comparable disclosures, the regulatory requirements with respect to scoping, content, and timing must be clear for preparers. The appendix to this letter includes recommendations for additional guidance and clarifications for CARB to consider as it develops the regulations required to implement the California climate laws.

Interoperability

Climate-related risks and greenhouse gas emissions are a global issue, and organizations worldwide have already developed frameworks requiring companies to disclose related information used by stakeholders to make informed decisions. We encourage CARB to acknowledge the work of global standard setters in developing disclosures and metrics that serve a broad range of stakeholder needs. Leveraging existing globally recognized frameworks would decrease costs of compliance, improve information quality and comparability, and enhance disclosure effectiveness.

When developing its regulations related to SB 253, we note that the law directs CARB to ensure "that the emissions reporting is structured in a way that minimizes duplication of effort."[1] SB 261 also includes specific provisions to avoid duplication of effort by allowing an entity to satisfy the requirements using alternative reporting in some circumstances. To this end, we recommend that CARB adopt more explicit interoperability provisions such that an entity may satisfy its reporting

[1] California Health and Safety Code, Section 38532(c)(2)(D)(i).

obligations with disclosures prepared in accordance with the IFRS Sustainability Disclosure Standards as issued by the International Sustainability Standards Board (ISSB) or the European Sustainability Reporting Standards (ESRS) issued by the European Commission for purposes of compliance with the European Union's Corporate Sustainability Reporting Directive. As further described in our response to Question 3.b, disclosures under these frameworks achieve objectives similar to those specified in SB 253 and SB 261 and would provide substantial and useful information about an entity's carbon footprint and climate-related risks. When applied consistently year over year, they would also allow for an effective assessment of each entity's progress in mitigating its emissions and climate-related risks, providing the transparency and accountability intended by SB 253 and SB 261.

Third-party assurance

SB 253 includes a requirement for independent third-party assurance on reported greenhouse gas emissions. It does not, however, specify qualifications for assurance providers. Studies have consistently shown that confidence in reported information is enhanced by third-party assurance. For example, 94% of investors responding to a study conducted by the Center for Audit Quality (CAQ) stated that companies should have their climate-related disclosures assured by a third party.[2] Performing assurance engagements in a quality manner requires, among other things, independence, competency, ethics, oversight, and quality management. We believe assurance should be performed by experienced, independent, credentialled professionals using standards that are set by accredited bodies and developed and maintained through a transparent, public process. We recommend that CARB establish appropriate requirements to help ensure the quality of the assurance provided.

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Appendix A includes our responses to certain questions included in CARB's solicitation for input. We would welcome the opportunity to meet with CARB to discuss our comments or answer any questions. Please contact Deanna Byrne at deanna.marie.byrne@pwc.com, Heather Horn at heather.horn@pwc.com, or Valerie Wieman at valerie.wieman@pwc.com for further discussion.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

[2] Institutional Investor Survey, Center for Audit Quality, April 2024.

Appendix

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.***

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

The lack of a specific definition of 'doing business in California' has been a source of confusion for companies. We support establishing a formal definition of this term because it is a critical element of determining whether an entity is in scope of the law. Utilizing an existing definition would promote clarity, reduce complexity, and help ensure consistency among entities. Consistency would also allow entities to assess their obligations under SB 253 and SB 261 more effectively, avoiding the need to navigate multiple, potentially conflicting interpretations of what constitutes 'doing business in California.'

The other critical element in determining whether an entity is in scope of SB 253 or SB 261 is the stated revenue thresholds. The term 'revenue,' however, is not defined in the laws. Therefore, consistent with the need for clarity on what is meant by 'doing business in California,' we recommend that CARB provide guidance on how to assess the revenue threshold. Specific guidance would allow entities to assess their obligations more effectively and would also help ensure consistency across entities. In addition, determination of 'revenue' can be challenging for entities in the financial services sector because their primary income sources include interest, fees, dividends, and investment income. We recommend that CARB also clarify how such entities should assess whether they have met the revenue threshold.

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

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

In general, we do not believe that CARB should provide exemptions for entities that meet the scoping criteria of SB 253 and SB 261 (although we do support a limited exception for entities that sell energy into California, as described under 1.d below). Subjecting all entities — including federal and state government entities and entities that are owned in part or wholly owned by foreign governments — to the same disclosure requirements ensures a consistent and equitable regulatory framework. Consistent application across all entities doing business in California is essential to maintaining fairness, accountability, and the effectiveness of the climate disclosure laws.

Limiting exemptions is also more consistent with the California Global Warming Solutions Act of 2006, which requires CARB to adopt regulations related to the reporting and verification of statewide greenhouse gas emissions. We have also found that minimizing exemptions enhances the clarity of scoping requirements. Exemptions without a clear boundary or purpose may create ambiguity, necessitating additional guidance and oversight to address their applicability, increasing the administrative burdens for both reporting entities and CARB.

1.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?*

After the bills were signed into law, the sponsors of SB 253 and SB 261 clarified that it was not their "legislative intent to include such energy transactions within the scope of this reporting obligation" and that the scope of SB 253 and SB 261 was "not intended to include a business entity whose only activity within California consists of wholesale electricity transactions that occur in interstate commerce."[3]

As noted, we believe there should be limited exemptions to the reporting requirements. We support, however an exemption for these transactions because short-duration energy markets play a vital role in balancing electricity supply and demand, enhancing grid reliability, and minimizing electricity costs. Subjecting participants in these short-term, interstate markets to California-specific reporting obligations could discourage participation, potentially undermining the efficient operation of these markets. By creating this exemption, CARB would avoid unintended consequences, preserving the functionality of these markets.

This exemption should not apply to entities participating in longer-term energy markets, bilateral contracts with specific counterparties, or other commercial energy activities within California.

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.*

3.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?

Both SB 253 and SB 261 require reporting in accordance with established reporting frameworks that are currently widely used for reporting.

SB 253 requires the use of the Greenhouse Gas Protocol (GHG Protocol) standards and guidance for purposes of reporting an entity's scope 1, scope 2, and scope 3 emissions, specifically noting the GHG Protocol *Corporate Accounting and Reporting Standard* and the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*. The GHG Protocol, however, has reorganized its governance and is currently in the process of updating its guidance, with new standards expected in 2027.[4] As a result, we recommend that CARB implement a process to monitor changes to the GHG Protocol's reporting standards to ensure that they continue to meet the reporting objectives of SB 253 as they are updated. We recommend that this be done in advance of the reassessment of the requirement to use the GHG Protocol, which SB 253 permits starting in 2033.

SB 261 requires the preparation of a climate-related financial risk report in accordance with the recommended framework and disclosures published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) or its successors. It also permits an entity to report in accordance with the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB). Subsequent to the signing of SB 261 into law, the TCFD was disbanded and the IFRS Foundation assumed responsibility for monitoring the progress of companies' climate-related disclosures.[5] The ISSB is actively engaged in sustainability standard setting and ongoing interpretation and maintains a transparent due

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[3] California Legislature, *Senate Daily Journal*, letter from Senators Scott Wiener and Henry Stern dated January 30, 2024, pages 2–3.
[4] Greenhouse Gas Protocol, GHG Protocol Corporate Suite of Standards and Guidance Update Process, accessed March 14, 2025.
[5] "ISSB and TCFD;" "IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024," both accessed February 21, 2025.

process for updating its standards. Because the TCFD standards are no longer actively monitored and updated, we believe CARB could adopt provisions to periodically assess whether reference to TCFD continues to be appropriate — similar to the monitoring of use of the GHG Protocol for SB 253 — as climate reporting evolves.

3.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?

To minimize duplication of effort, we recommend that CARB clarify SB 253 and SB 261's interoperability provisions by explicitly recognizing additional equivalent reporting frameworks.

The proliferation of mandatory reporting requirements worldwide is a challenge to entities required to report under multiple reporting regimes. We support the stated legislative intent and CARB's related efforts to minimize unnecessary duplication, reducing the cost of compliance. Although there are some differences in the specific measurement and reporting requirements, the most common frameworks used worldwide achieve similar objectives as those specified in SB 253 and SB 261 as follows:

- European Sustainability Reporting Standards (ESRS) issued by the European Commission for purposes of compliance with the Corporate Sustainability Reporting Directive (CSRD) in the European Union
- IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board

One of the foundational points of alignment between the disclosures required by ESRS and the ISSB standards is the incorporation of the key 'pillars' of sustainability reporting established by the TCFD: governance, strategy, risk management, and metrics and targets. Further, both ESRS and the ISSB standards require disclosure of climate-related risks and opportunities and scope 1, scope 2, and scope 3 emissions, subject to the entity's materiality assessment. In addition, ESRS and the ISSB standards rely on the GHG Protocol guidance for measurement and classification of GHG emissions.

ESRS and the ISSB standards were developed following robust due process procedures led by EFRAG/the European Commission and the ISSB, respectively. This approach to standard setting helps ensure that the standards are fit-for-purpose for the intended use. Although the disclosures differ in some respects from the requirements of SB 253 and SB 261, we believe disclosures in accordance with ESRS and the ISSB standards provide substantial and useful information about an entity's carbon footprint and climate-related risks, and when applied consistently year over year, allow for an effective assessment of each entity's progress in mitigating its emissions and climate-related risks. Emissions disclosures prepared using these standards are equally effective in providing the transparency and accountability intended by SB 253 and SB 261.

SB 253 — specific considerations

SB 253 requires reporting of scope 1, scope 2, and scope 3 emissions in accordance with the requirements of the GHG Protocol. Alternatively, we believe CARB should permit an entity to comply by providing a report prepared in accordance with ESRS or the IFRS Sustainability Disclosure Standards, to the extent the entity includes reporting of scope 1, scope 2, and scope 3 emissions together with the related disclosures.

SB 261 — specific considerations

In addition to reporting prepared in accordance with TCFD, SB 261 already permits an entity to satisfy its requirements using the IFRS Sustainability Disclosure Standards, or with disclosures prepared in accordance with "an equivalent reporting requirement." The law does not specify how to determine if an alternative framework is equivalent; we recommend that CARB establish guidelines for making this assessment.

Further, we believe that CARB should specify that a report prepared in accordance with ESRS is equivalent if the entity identifies climate as a significant risk and provides the relevant reporting and disclosures required by ESRS E1 *Climate change*. The ways in which these disclosures differ from the TCFD framework are generally the same as the differences in the ISSB standards, which SB 261 acknowledges as an equivalent framework.

We also believe CARB should provide additional clarity for entities following the IFRS Sustainability Disclosure Standards. Specifically, application of these standards requires disclosure of an entity's sustainability-related risks and opportunities beyond those related to climate. As such, we recommend that CARB specify that an entity is required to provide climate-related disclosures in accordance with IFRS S2 *Climate-related Disclosures* – along with relevant climate-related portions of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* – to meet the requirements of SB 261.

3.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?

We believe CARB should retain the flexibility permitted by the GHG Protocol, TCFD, the ISSB standards, and ESRS, as applicable. Many of these elections permit an entity to apply the guidance in a manner that best reflects its individual facts and circumstances (for example, the selection of an organizational boundary approach in accordance with the GHG Protocol).

Once elected, however, we believe a specific reporting method should be applied consistently unless there is a change in circumstances. If a change is warranted, a reporting entity should be required to disclose the reasons and the effect it had on the information reported in the current period. Consistency is a foundational concept in both financial and sustainability reporting in that it helps achieve comparability.[6]

The disclosure of any changes in methodology will provide transparency regarding the cause of year-over-year changes in the information provided.

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

[6] Financial Accounting Standards Board, Statement of Financial Accounting Concepts, *CON 8: Conceptual Framework for Financial Reporting*, Chapter 3, paragraph QC 11; International Accounting Standards Board, *Conceptual framework for financial reporting 2018*, Chapter 2, paragraph 2.26; European Sustainability Reporting Standard 1, *General requirements*, Appendix B, paragraph QC 11; International Financial Reporting Standard S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, Appendix D, paragraph D19.

specific aspects of scopes 1, 2, or 3 reporting that CARB should consider standardizing?

Consistent with our response to Question 3.c, we believe a reporting entity should be able to make its own election based on its facts and circumstances where permitted by the standards. We do not believe CARB should require standardized elections.

While we acknowledge that reporting flexibility may lead to differences in methodology across reporting entities, we believe that appropriate disclosure of applicable policy choices — rather than mandating specific elections — strikes the right balance between consistency and practicality. Transparent disclosure of methodologies applied will allow for comparability while preserving the adaptability needed to account for sector- and company-specific circumstances.

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.

8.a. For entities required to report under SB 253, what options exist for third-party verification or assurance for scope 3 emissions?

There is an existing assurance ecosystem that we encourage CARB to leverage to help ensure that assurance providers are independent, appropriately qualified, and subject to effective oversight.

The description of an assurance provider in SB 253 would allow entities with no prior assurance experience to issue attest reports on emissions information. Performing assurance engagements in a quality manner requires competent resources who have had extensive training and experience in obtaining evidence to express an opinion or conclusion about the subject matter (for example, sustainability information) in the assurance report. We believe that assurance engagements performed by experienced professionals increases confidence in reported information. This confidence would be undermined by varying qualifications related to independence, ethics, oversight, and quality management of the person or entity providing that assurance. We recommend that CARB align the experience requirement with that used by the International Standard on Assurance Engagements 3000, which, among other provisions, requires the engagement partner to have "competence in assurance skills and techniques developed through extensive training and practical application" and "sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion."[7]

SB 253 stipulates that the provider of third-party assurance be independent. The law does not, however, explain what standards the GHG assurance providers must meet. Independence and objectivity are the starting point for confidence in third-party assurance. The International Ethics Standards Board for Accountants recently finalized independence and ethics requirements for sustainability-related assurance engagements. We encourage CARB to refer to these requirements and safeguards to help achieve its objective of integrity, quality, and effectiveness of sustainability reporting and assurance.

We also recommend that CARB require the assurance provider to meet minimum quality control requirements, such as those related to engagement performance and compliance with a code of

[7] International Standard on Sustainability Assurance 5000 contains comparable requirements and will be effective for assurance engagements on sustainability information reported for periods beginning on or after December 15, 2026, or as of a specific data on or after, December 15, 2026.

conduct and ethical requirements akin to the requirements for those that provide attestation under AICPA or International Auditing and Assurance Standards Board (IAASB) standards.

8.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?*

Under the AICPA's attestation standards, practitioners may conduct a review (limited assurance) or examination (reasonable assurance) engagement, each of which leads to the issuance of an independent assurance report. In an examination, the practitioner obtains reasonable assurance (the same level of assurance as a financial statement audit) that the information is free from material misstatement and in accordance with the reporting standards in all material respects. On the other hand, in a review, the practitioner obtains limited assurance (the same level of assurance as a financial statement interim or annual review) about whether the practitioner is aware of any material modifications that should be made for the information to be in accordance with the reporting standards. The IAASB standards have similar terms and definitions. If CARB specifies that the assurance standards to be used are those issued by the AICPA and the IAASB, we do not believe that it would be necessary for the terms "limited assurance" and "reasonable assurance" to be defined since the objectives of each type of engagement are outlined in those standards.

California's Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR) defines reasonable assurance as a "high degree of confidence that submitted data and statements are valid." Use of the word "valid" in the MRR definition of reasonable assurance is vague and is not based on a common understanding of how that word should be interpreted. The descriptions of attest engagements above begin with the understanding that an attest engagement is conducted in accordance with established attestation standards. It is the application of these professional standards that determines the nature, timing, and extent of procedures necessary to provide limited or reasonable assurance.

To help ensure consistent, comparable, and high-quality assurance engagements, we believe GHG emissions attest engagements should be conducted pursuant to standards that are publicly available at no cost and established by a body or group that followed due process procedures in the development of those standards. We note that the attestation standards of the AICPA and IAASB would meet these requirements.

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?

SB 261 does not specify the period to be covered by the entity's report. We believe that CARB should specify that an entity may comply with these requirements based on its fiscal year. Alignment with an entity's fiscal year would reduce the cost of compliance because existing sustainability and financial report requirements are typically prepared on a fiscal-year basis. It would be a burden for a covered entity to prepare its disclosures as of a different date than its fiscal year.

We also note that timeliness is a qualitative characteristic that enhances the usefulness of information. The relevance of the reported information may be enhanced by establishing a limit on the age of the data provided. For example, to meet the SB 261 requirement to provide a climate-related financial risk report by January 1, 2026, a calendar year-end entity would provide information as of December 31, 2024. To ensure that stakeholders have the most current information with respect to the climate-related risks to which an entity is exposed, we recommend that CARB establish a one-year limit on the age of the information contained within the report. That is, CARB could provide that the report be as of a date no more than a year after a covered entity's most recent fiscal year end.

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.)?

We do not believe a standardized two-year reporting period is necessary. Because the date of the first required submission is fixed in the law (i.e., by January 1, 2026), entities in scope for initial reporting will naturally be aligned on the same two-year reporting period.

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

13.a. What other types of existing climate financial risk disclosures are entities already preparing?

Many companies have a long history of voluntary sustainability reporting even in advance of the recent shift toward mandated reporting. Examples include the following:

- Many entities issue voluntary reports including components of the TCFD framework; however, full compliance with all 11 TCFD recommendations remains uncommon based on the ISSB's most recent status report. In a sample of 3,814 public companies, the ISSB found that less than 3% reported in line with all 11 TCFD recommendations, while 56% issued a report addressing four or fewer recommendations.[8]

- Many multinational companies are expected to be in the scope of one or more jurisdictional requirements to comply with the ESRS or ISSB standards. We note, however, that due to phased compliance dates and provisions, it will be several years before these requirements are fully implemented. We also note that the reporting boundary in such reports may not encompass the totality of a US entity in scope of SB 261. The mandated reporting, for example, may only apply to certain of a US entity's subsidiaries.

- Prior to the trend toward mandated reporting, voluntary sustainability reporting frameworks – including those established by the Sustainability Accounting Standards Board, the Global Reporting Initiative, the Climate Disclosure Standards Board, the Task Force on Nature-related Financial Disclosures, and the GHG Protocol – were widely used and continue to play a critical role for entities reporting under the more recently issued sustainability reporting regulations. These frameworks serve as the foundation to today's sustainability reporting requirements and in some cases must be referred to or considered in connection with other mandates.

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

Our response to Question 13.a outlines the primary frameworks commonly used by entities for climate-related financial risk disclosures.

[8] IFRS Foundation, *Progress on Corporate Climate-related Disclosures—2024 Report*, page 2.

13.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?

SB 261 does not specify which elements of the TCFD framework must be applied in a climate-related financial risk report. This may create challenges for entities in determining the scope of reporting because TCFD frames the disclosures as 'recommendations.' Other points that may require clarity include whether a covered entity needs to disclose the climate-related opportunities required by the TCFD because SB 261 only specifies that an entity needs to report on climate-related financial risks. We encourage CARB to define the specific components of the TCFD framework that would meet the requirements of SB 261. Such clarity will help ensure an entity's disclosures are appropriately targeted, reducing unnecessary cost and effort.