One Congress Street
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Boston, MA 02114

March 21, 2025
To: California Air Resources Board (CARB)
From: Andrea Ranger, Director of Shareholder Advocacy, Trillium Asset Management, LLC
Re: Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219

I write on behalf of Trillum Asset Management, LLC ("Trillium") to respond to CARB's request for comment on the implementation of California Climate-Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219.

Trillium is a socially and sustainably responsible investment firm with $6.1B assets under advisement. We are headquartered in Boston, Massachusetts with an office in San Francisco.

Our interest in California's legislation is related to our deep concern regarding corporate exposure to climate risk. Leading financial authorities – including the United States Financial Stability Oversight Council,[1] United States Federal Reserve,[2] European Central Bank,[3] and the United Nations[4] - have concluded that climate change poses systemic financial risk. In fact, a recent study reports that even by curtailing all greenhouse gas emissions today, climate impacts may still limit GDP growth by up to19% at midcentury.

Both investor fiduciaries and corporate directors have long-term legal obligations that make climate change highly financially relevant. Focusing only on short-term risks and opportunities will likely undermine American companies' long-term competitive position and, therefore, may impact domestic investor returns. According to McKinsey & Company, companies managed with a long-term view substantially outperform their short-term peers over time.[5] The California climate disclosure rules are being developed against this backdrop of long-term vs. short-termism. Without adequate climate risk disclosures, we believe there will be insufficient information to meet the needs of long-term investors.

Thus, we believe California's climate disclosure laws will provide investors like Trillium with clear, consistent, and comparable data on the climate-related financial risks to which the state's publicly-traded and private companies are exposed. In addition, we believe these laws have the potential to spur better climate-related disclosures across the broader capital markets and could be helpful tools in guiding capital formation.

Given the acute and chronic risks posed by climate change – of which California has experienced and continues to experience many – and transition risks, e.g. regulatory, market, and legal risks accrued by

[1] https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf, at 1-2
[2] https://www.federalreserve.gov/econres/notes/feds-notes/climate-change-and-financial-stability-20210319.html
[3] https://www.ecb.europa.eu/press/financial-stability-publications/macroprudential-bulletin/html/ecb.mpbu202206_2~1bec56088f.en.html
[4] https://www.unepfi.org/wordpress/wp-content/uploads/2024/09/NZAOA_Urgent-CtA_final.pdf#page=3.10
[5] https://www.mckinsey.com/featured-insights/long-term-capitalism/where-companies-with-a-long-term-view-outperform-their-peers

failing to transition one's business strategies to an economy oriented to lower carbon products and services - Trillium requests our portfolio companies provide enhanced climate risk disclosure. Among valuable climate risk disclosure regimes, we include the Task Force on Climate Related Financials Disclosures, now incorporated into International Sustainability Standards Board's (ISSB's) disclosures, the CDP Climate Disclosure platform, and the Global Reporting Initiative, among others.

Additionally, we regularly review companies' greenhouse gas (GHG) emissions data to better understand where they may be experiencing inefficencies (such as carbon-intensive energy consumption or failure to fully integrate energy efficiency measures into their operations). We also view year-on-year emissions reductions, or lack thereof, as a measure of management's capacities and competence in addressing enterprise-level climate risk.

Trillium strongly prefers companies calculate and report on their Scope 3, or value chain, GHG emissions. While we acknowledge methodologies and data collection for Scope 3 GHG emissions are evolving, this data can point to emissions hot spots, suggest areas for value chain cost savings, and identify areas where government and industry collaboration are needed to advance decarbonization. In addition, as diversified investors, we recognize that a single company's emissions have impacts beyond its own operational boundaries. That is, companies that are not responsibly managing and reducing their GHG emissions are contributing to broader climate risk that can negatively impact other companies in our investment portfolios.

Focusing on California, the recent Los Angeles wildfires and other natural disasters emphasize the need for heightened information disclosure regarding the financial impacts of physical climate risks and how companies are managing them. For example, two issues of concern to Trillium include tech companies' siting of data centers in high water stress regions and how limited access to water may disrupt operations at these highly sensitive facilities.[6] We are also monitoring whether property and casualty insurance companies plan to reduce their exposure to the California market, a concern surfaced by the LA wildfires.[7]

Thus, we believe it is essential that the rules adopted by CARB include reporting from companies on the corporate value at risk from the physical impacts of climate change and on what companies are doing to build resilience to these risks as well as avoid contributing to them.

Finally, we offer several responses to specific questions CARB has posed:

- Questions 3 & 13 - Concerning external standards and climate risk disclosures companies are already reporting:
    - Companies report their climate risk exposure using various disclosure standards including CDP, GRI, and TCFD. However, companies we've engaged express disclosure fatigue from reporting to so many different standards. Since the ISSB standards now integrate TCFD and are being adopted by multiple countries, we recommend that CARB explore transitioning to the ISSB framework.

[6] https://subscriber.politicopro.com/article/2025/01/ai-data-centers-face-scrutiny-for-water-and-energy-use-as-la-fires-rage-00197434
[7] https://www.reuters.com/markets/us/us-property-casualty-insurers-slide-los-angeles-wildfire-losses-mount-2025-01-10/#:~:text=%22The%20largest%20U.S.%20primary%20insurers,new%20tab%20and%20Hiscox%20(HSX.

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- Question 7 - Are there specific aspects of Scopes 1, 2, or 3 reporting that CARB should consider standardizing?
    - Yes. We urge CARB to conform as closely as possible to the GHG Protocol and avoid customizing California's emissions reporting requirements. Additionally, we believe use of other disclosure guidance, such as The Climate Registry's (TCR) General Reporting Protocol (GRP), which meets the standards of the GHG Protocol, is appropriate for reporting companies.
    - Like SB 253, the ISSB Standards also requires the use of the GHG Protocol. However, the ISSB's IFRS S2 standard also specifies requirements that 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, in order to minimize regulatory fragmentation and complement companies' ISSB reporting efforts.
    - Regarding Scope 3 emissions disclosure, CARB should develop guidance that directs companies to report on Scope 3 categories based on whether they are material to the company (e.g. exceeding a certain percentage of their total emissions); or on the categories of Scope 3 emissions where the company has a reduction goal.
    - We also recommend Scope 3 reporting be phased in for companies that have not disclosed these emissions yet. Such companies could start by conducting a Scope 3 screening exercise. Subsequently, they could begin reporting by using estimated data to determine where hot spots – or places with significant climate emissions and risk – exist in their value chains. Once hot spots have been identified, they may choose to collect primary data to better understand and manage those emissions and enhance future reporting.
- Question 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:
    - What frequency (annual or other) and time period (1 year or more) are currently used for reporting?
        - Companies should report annually on one year of data at a time and align reporting with the calendar year.

We appreciate the opportunity to comment on the California climate risk disclosure rules. Trillium views enhanced disclosure of the physical risks experienced by companies, or anticipated to be experienced, from climate change to be an important tool. Further, it is our opinion that implementing the rules will better position companies doing business in California to serve their investors, customers, and communities.

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Thank you for your consideration.

Sincerely,

Andrea Ranger
Director of Shareholder Advocacy