IETA FINAL RESPONSE TO CARB

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

IETA's Response to Select Consultation Questions:

3a. 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?

- As a global organization, our members are concerned about **growing fragmentation of climate disclosure rules and the challenges of interoperability** across multiple jurisdictions. To ensure CARB's regulations meet California-specific needs while remaining aligned with evolving external standards, it is critical that reporting obligations are clearly defined, focused, and do not impose unnecessary burdens beyond what is essential for regulatory purposes. This includes relying heavily on established standards, practices, and methodologies that provide reporters substantial flexibility to avoid duplication with relevant existing practices.

- To maintain regulatory consistency, reduce duplicative reporting, and ensure compliance feasibility, CARB should:

    - Align reporting requirements across jurisdictions to ensure maximum interoperability.
    - Recognize equivalent reporting standards so companies do not have to file duplicative reports if they already comply with another jurisdiction's requirements.
    - Adopt SEC-aligned financial materiality standards for SB 261 disclosures.
    - provide a safe harbor for climate-related disclosures pertaining to transition plans, scenario analysis, the use of an internal carbon price, and targets and goals
    - Restrict reporting obligations to past performance rather than speculative future projections.
    - Consider a phased approach recognizing the complexity of fully capturing scope 2 & 3 emissions

    - CARB should clarify the definition of "annual revenue" and provide specific guidance on how it applies across different business structures (partnerships, subsidiaries, etc.) to ensure proper compliance. We recommend a two-part approach:
        - (1) Applicability threshold: The annual revenue threshold that determines whether an entity is covered should be based specifically on business activities conducted within California.
        - (2) Compliance boundary: Once a subsidiary is deemed a covered entity based on its California operations only, the parent company should be permitted to satisfy the disclosure requirements through consolidated reporting at the parent level if they so choose. Flexibility is key to limiting unintended negative impacts.
    - This distinction is important - it separates what triggers regulatory applicability from how a company can most efficiently satisfy compliance obligations.

- By **focusing on practical, investor-relevant, and enforceable disclosures**, CARB can create a regulatory framework that serves California's needs while avoiding excessive compliance burdens, unintended economic consequences, and unnecessary divergence from existing global reporting standards. Central to this approach, phasing in the regulation will be crucial to limiting the negative unintended consequences that may arise under an unobtainable overly ambitious and stringent policy.

3b. 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?

- CARB should **allow entities already reporting under equivalent mandatory programs to use those reports to fulfill SB 253 and 261** requirements rather than submitting duplicative filings.

- CARB should accept any other reporting that also includes the emissions arising from California activities as equivalent. Even if this reporting is consolidated at a parent-company level or includes reporting for emissions beyond California, it avoids conflicts with other regulatory frameworks and undue burden on in-scope entities

- The California legislature has already recognized the value of avoiding redundant disclosures by exempting insurers from SB 261 if they comply with the National Association of Insurance Commissioners (NAIC) reporting standard, which aligns with TCFD requirements. CARB should apply the same logic across all industries to ensure consistency and efficiency.

4b. 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?

- Direct compliance costs alone include an extensive array of activities such as data collection and processing, hiring and training of employees for reporting tasks, reviewing and consulting on technical standards, software development / purchase costs, use of external consultants to assist with ensuring compliance, engaging a third-party auditor, and allocating employee resources to assist with the audit.

- **CARB could potentially mitigate these costs for reporting entities by:**
  - Eliminating a separate reporting requirement for companies that are already reporting under an equivalent standard to those required by CA SB 253 or 261
  - Adopting a financial based materiality qualifier for climate-related financial risks
  - Not imposing any third-party assurance requirements for Scope 3 emissions
  - Provide a safe harbor for climate-related disclosures pertaining to transition plans, scenario analysis, the use of an internal carbon price, and targets and goals

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?

- **Importantly, many covered entities invest in voluntary carbon credits as well as market-based instruments such as environmental attribute certificates (EACs),** renewable energy certificates, sustainable aviation fuel certificates, and other commodity-specific or energy carrier certificates as part of their climate action and climate risk mitigation strategies. These mitigation actions are NOT captured consistently in company greenhouse gas inventories due to a lack of clear inventory accounting guidance. Specifically, **the GHG Protocol does not currently provide detailed guidance** on quantifying or characterizing mitigation impacts from these instruments, nor does it provide a standardized reporting template to transparently communicate important details about those instruments.

- To facilitate reporting for **covered entities who voluntarily choose to invest in such instruments**, we strongly encourage CARB to provide guidance in the form of suggested data, standard disclosure format, or sample reporting templates, and by endorsing additional sources of guidance that ensure transparency and consistency in reporting by companies that actively utilize market instruments.

- Regarding the potential standardization of Scope 1, 2, or 3 reporting, we emphasize the importance of maintaining flexibility to minimize duplication of efforts by reporting entities.

8b. 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?

- The existing "reasonable assurance" definition under California's Mandatory Reporting Regulation (MRR) could serve as a baseline **but may require updates to reflect evolving best practices**. The **reasonable assurance standard under MRR is likely not suitable for GHG emissions because it assumes a level of precision and auditor expertise** that does not exist in the current emissions verification landscape.

- Unlike Scope 1 emissions estimates, which typically are calculated based on a regulatory framework using emissions factors and empirical data, Scope 3 emissions rely on third-party disclosures, industry averages, and assumptions about supply chain and consumer behavior—none of which can be consistently verified with high or even limited confidence. **Given the complexity of Scope 3 emissions**, CARB should consider a phased verification approach, starting with limited assurance before transitioning to reasonable assurance as data quality improves

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

- Many companies provide climate-related disclosures to inform stakeholders. These reports are typically published on a schedule designed to provide updated annual insights, are developed based on extensive engagement with investors, and are often aligned with the reporting principles of the Task Force on Climate-Related Financial Disclosures (TCFD).

- As mentioned above, many covered entities invest in voluntary carbon credits as part of their climate action and climate risk mitigation strategies. These mitigation actions are NOT captured consistently in company greenhouse gas inventories due to a lack of clear inventory accounting guidance. To facilitate reporting for covered entities who voluntarily choose to invest in voluntary carbon market offsets, **we strongly encourage CARB to provide guidance in the form of suggested data, standard disclosure format, or sample reporting templates, and by endorsing additional sources of guidance that ensure transparency and consistency in reporting by companies that use market instruments.**

- Further, **CARB could consider incorporating elements to address concerns/uncertainty with AB 1305 Voluntary Carbon Market Disclosures**. AB 1305 directs regulated entities to publish specific information related to voluntary offset activities "on the entity's internet website" but does not provide further instruction regarding form of required disclosures, including explanatory definitions for key terms. As part of this rulemaking, CARB could consider incorporating this suite of disclosure elements, along with helpful clarifications in voluntary disclosure guidance. **Incorporation of these elements may streamline and clarify compliance for those entities covered by AB 1305** that also wish to disclose voluntary mitigation efforts in climate related financial risk reports under SB 261.

13d. 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?

- Many entities already report climate-related financial risks under frameworks such as:
    - TCFD (widely adopted for voluntary and mandatory disclosures)
    - SEC Climate Disclosure Rules (proposed, affecting U.S. public companies)
    - ISSB Standards (IFRS S1 & S2) (global baseline for sustainability reporting)
    - EU Corporate Sustainability Reporting Directive (CSRD) (expanded disclosures for EU operations)
    - Stock Exchange Listing Requirements (LSE, Singapore Exchange, etc.)
    - ISO 14064-3

- CARB should ensure that its reporting framework aligns with these existing disclosure standards wherever possible to minimize redundancy while maintaining rigorous oversight.