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March 21, 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.

Dear Members of the California Air Resources Board:

Deloitte & Touche LLP appreciates the opportunity to respond to the information solicitation from the California Air Resources Board (CARB or the Board) regarding its work to implement Senate Bills (SB) 253 (Wiener, Statutes of 2023) and 261 (Stern, Statutes of 2023), both as amended by SB 219 (Wiener, Statutes of 2024) (collectively the Legislation). Our observations in this letter are based on our experience as an assurance provider and adviser to entities that may be subject to the Legislation.

Assurance considerations

With respect to the requirement in SB 253 that reporting entities obtain assurance over greenhouse gas (GHG) emissions reported, we recommend that CARB consider providing more clarity around the assurance required to comply with that requirement. Consistent with the stated intent of the Legislation to provide "transparency from companies regarding their GHG emissions to inform their decision making," we believe it is important that users of the disclosure understand the nature of the assurance that companies obtain over their disclosure; lack of guidance on this point may compromise the consistency and comparability of assurance reports across companies, as well as the quality of the assurance provided.

We encourage the Board to consider a recent publication by the Center for Audit Quality (CAQ) and the American Institute of CPAs (AICPA) entitled [Sustainability Reporting and Assurance: Key Considerations for Legislators and Regulators] that discusses the benefits of recognized assurance standards and specific levels of assurance, as well as the qualifications for assurance providers that contribute to the quality and consistency of assurance services (*e.g.,* subject matter expertise, knowledge of standards, quality controls, and established independence and ethical requirements).

Specific to the standards of assurance, we recommend that CARB require that the assurance mandated by SB 253 be provided using widely accepted professional standards, such as the attestation standards of the AICPA or equivalent international standards.[1] Well-understood and consistent application of professional standards both supports the delivery of high-quality assurance services and enhances user understanding through the issuance of consistent and comparable assurance reports.

[1] For example, the International Standards on Assurance Engagements (ISAEs) and the International Standard on Sustainability Assurance (ISSA) issued by the International Auditing and Assurance Standards Board (IAASB).

The AICPA standards contain widely understood and accepted definitions of assurance, including "reasonable assurance" and "limited assurance," (terms used in the Legislation) that we believe CARB should consider utilizing in its implementation. While under AICPA standards, a limited assurance engagement provides a lower level of assurance than a reasonable assurance engagement,[2] in both of these widely-recognized types of engagements, the ability of the assurance provider to issue a conclusion or opinion on the reported information is dependent upon their ability to obtain sufficient appropriate evidence to draw reasonable conclusions on which to base the assurance report.

We note that the Legislation, and the Board in their information solicitation, also uses the term "verification" in some contexts. We recommend that CARB not use this term in implementation, because—unlike the terms limited assurance and reasonable assurance—we do not believe there is a general understanding of the term verification or how it differs from assurance.

Benefits of global consistency

Companies that will need to comply with the Legislation may also already voluntarily provide similar disclosures or may have to comply with other jurisdictions' climate-related financial reporting requirements currently or in the near-term. We have heard from companies about challenges in determining which climate-related reporting framework or standards to follow when faced with different jurisdictional requirements. Even where different regulations have overlapping requirements it is not clear that disclosure prepared to fulfill one requirement will be acceptable under another; this can lead to duplicative or parallel reporting by companies.

The Legislation allows entities to comply with California reporting requirements if their other climate-related reports include the necessary disclosures. One example, provided under SB 261, allows for companies to disclose their climate related risk report in accordance with IFRS Sustainability Disclosure Standards. Many multinationals based in the European Union will be reporting using European Sustainability Reporting Standards, which includes climate-related financial risk reporting, and other entities may voluntarily apply sustainability standards such as those issued by the Global Reporting Initiative (GRI). As climate reporting becomes more global, companies and information users benefit from consistent global requirements, therefore we encourage CARB to create regulations that consider equivalence in determining which standards or frameworks would satisfy California's requirements.

Other observations and potential areas for clarification

Based on our work with companies preparing to comply with the Legislation, we have some observations related to company readiness to provide the proposed disclosures, as well as about topics on which we believe companies subject to the Legislation may benefit from additional guidance and clarification. Specifically, we recommend that CARB consider providing guidance or clarification on the following topics:

Determination if an entity is in scope and measurement of revenue thresholds

- How an entity determines if it "does business in California," including addressing the types of entities to which the definition applies (*e.g.*, how should not-for-profit entities, employee benefit plans, or an entity's supply chain be considered in the assessment?)
- How total revenue should be measured (e.g., is the calculation of total annual revenues based on the measurement guidance within US Generally Accepted Accounting Principles or tax basis under the Internal Revenue Code?)
- Industry specific scoping matters (e.g., are financial services, employee benefit plans, or not-for-profit entities in scope of the Legislation?)

[2] See pp 6-7 of CAQ publication: Sustainability Reporting and Assurance: Key Considerations for Legislators and Regulators.

- How a multinational US entity or foreign entity with US subsidiaries should determine total annual revenue
- The definition of "parent company level" (e.g., is the parent company level the ultimate parent of all entities for a foreign multinational or could the parent company level be the consolidated parent of all US reporting or covered entities for the foreign multinational parent?)
- The annual period used to calculate the measure of total annual revenue for assessment if an entity "does business in California"
- Whether, after the first reporting period of the Legislation, an entity that exceeds the annual revenue threshold for the first time due to growth in business or an acquisition should have a phase-in period for compliance
- How an entity would address midyear divestitures for determination of "does business in California" and measurement of total annual revenue (e.g., under the GHG Protocol a divestiture may be considered a structural change, requiring calculation of emissions to remove the divested entity's emissions[3])

Reporting

- Whether all disclosure recommendations and disclosures outlined in the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) are required to comply with the requirements of SB 261, including GHG emissions for Scope 1 and 2, as well as Scope 3 (if material)
- Whether SB 253 requires, in addition to GHG emissions information, all disclosures in accordance with the GHG Protocol
- Whether adopting equivalent standards would require only climate reporting (e.g., SB 261 identifies the standards of the IFRS as issued by the ISSB as an equivalent reporting framework but reporting under the IFRS standards may require entities to report metrics outside of climate-related financial risk)

We have also observed that, while some companies report Scope 3 emissions today, many companies may currently lack necessary data, technology, and processes related to Scope 3 emissions. We encourage the Board to consider feedback from companies about potential implementation challenges specific to Scope 3 emissions disclosures when developing further requirements and guidance for reporting.

* * *

If you have any questions or would like to discuss our views further, please contact Doug Rand at (202) 220-2754 or Consuelo Hitchcock at (202) 220-2670.

Sincerely,

Deloitte & Touche LLP

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[3] Greenhouse Gas Protocol's Corporate Account and Reporting Standard, Chapter 5, *Tracking Emissions Over Time*, page 37 "When significant structural changes occur during the middle of the year, the base year emissions should be recalculated for the entire year, rather than only for the remainder of the reporting period after the structural change occurred. This avoids having to recalculate base year emissions again in the succeeding year. Similarly, current year emissions should be recalculated for the entire year to maintain consistency with the base year recalculation." (available at: https://ghgprotocol.org/).