INTERFAITH CENTER ON CORPORATE RESPONSIBILITY
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March 21, 2025

Chair Liane M. Randolph
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: RFI on Implementation of California Climate Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219

Dear Chair Randolph and CARB Staff,

The Interfaith Center on Corporate Responsibility (ICCR) is a network of faith-based and secular institutional investors significantly invested in businesses operating in or doing business in California. Our members include over 300 institutional investors representing more than US$4T in assets under management., and ICCR appreciates the opportunity to provide feedback in response to California Air Resources Board's ("CARB's") request for additional information on the implementation of Senate Bills (SB) 253 and 261, as amended by SB 219.

For over three decades, ICCR investors have sought to drive and improve climate reporting by companies in their portfolios, often engaging companies directly through dialogue and the filing of shareholder resolutions. Our members have long advocated for this practice on the basis of improved risk management at the company level, but increasingly also do so out of concern for broader, systems-level risks. Many ICCR members and other investors are long-term, diversified shareholders that are broadly invested in the market (often called "universal owners"), and as a result, their portfolios are exposed to significant financial risk from systemic, market-wide risks such as climate change. ICCR members therefore find it within their best interests to advance corporate action on ambitious climate risk mitigation strategies.

ICCR believes climate-related disclosures are critical for effective investment analysis and decision-making. Our comments are grounded in the experience of our members – as investors managing diversified portfolios and as active stewards who play a leading role in engagement with companies on climate risks. Our members' experience as engaged investors often represents the best available frontline evidence on the feasibility of fulfilling climate disclosure requirements. It also provides insight into the extent to which requirements address (or in some cases fail to address) identified investment risks associated with registrants' climate strategies.

Our members have long sought more consistent, comparable and market-wide disclosures of climate risks and opportunities, so we welcome CARB's contributions to market transparency and uptake by both public and private enterprises. ICCR members are highly supportive of publicly-available climate data that both raises the ceiling in terms of quality and quantity and harmonizes with existing data-sets and climate frameworks in other reporting jurisdictions.

ICCR is providing the following commentary to CARB's RFI query. Our comments below focus on the selected questions that are most central to our experience and expertise.

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

ICCR concurs with the comments of other respondents, including the NYCPA and corporate feedback provided by Ceres, supporting the use of this definition. Section 23101 is the most reasonable and practical path forward for defining what entities are doing business in California, as it is already in use by many companies and some stakeholders.

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

Yes, entities that meet the business definition above should not be excluded if they have ownership interest by a foreign government.

2. What are your recommendations on a cost-effective manner to identify all businesses covered by the laws (i.e., that exceed the annual revenue thresholds in the statutes and do business in California)?
a. For private companies, what databases or datasets should CARB rely on to identify reporting entities? What is the frequency by which these data are updated and how is it verified?
b. In what way(s) should CARB track parent/subsidiary relationships to assure companies doing business in California that report under a parent are clearly identified and included in any reporting requirements?

ICCR supports the use of methods that enhance transparency and interoperability, such as the Legal Entity Identifier (LEI), which is built for global interoperability and updated frequently. As investors, we believe that this global identifier provides a foundation of breadth and precision to support accurate identification. We also note that the state's own tax databases may have existing information on business entities that may be relied upon and enhanced if necessary to track needed information. CARB should also consider consulting the parent/subsidiary methodologies of large financial data providers and whether attestation is needed by respondents.

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 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?

CARB should commit to analyzing key changes in reporting protocols every two to three years, to benchmark evolving reporting standards. CARB may find it helpful to establish a council or working group of companies and stakeholders charged with tracking the evolution of standards and bringing key questions back to CARB for additional analysis.

We note that the GHG Protocol does not provide guidance on how to quantify, characterize, or account for mitigation impacts achieved by a reporting entity using market-based instruments such as the purchase of renewable energy certificates (RECs) in Scope 2 reporting. Since ongoing revisions to the GHG Protocol are not expected to be completed until at least 2028, CARB should consider incorporating or endorsing recognized sources of target accounting guidance to ensure that the use of market-based mechanisms by companies working to mitigate their climate impacts is transparently and consistently characterized.

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?

Many companies are already voluntarily or mandatorily reporting specific aspects of SB 253 or 261 across various markets. We hope that CARB will provide clear guidance to reporting entities on what voluntary and mandated existing reporting disclosure regimes meet the threshold for reporting under SB 253/161/219, in whole or in part. However, CARB should clearly identify any gaps or deficiencies that do not meet the standard for 253/261/219. Again, an Advisory Committee of companies and stakeholder experts meeting regularly might help identify potential issues with new reporting obligations as they arise.

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?

Yes, investors would benefit from entities choosing a specific reporting method and sticking with that method, absent a reasonable or compelling change to the business or the methodological standard in place. For instance, a company completing a merger with another entity where that entity had a very compelling reason to use one methodology over another would seem a reasonable trigger for changing a reporting method. However, investors favor consistency and ease of comparability when looking at voluminous amounts of data, so to the extent that CARB can drive consistent methodologies across companies, or at minimum sectors, that would be valuable to the market and data analytics uptake.

4. To inform CARB's regulatory processes, are there any public datasets that identify the costs for voluntary reporting already being submitted by companies? 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?

We are aware of research conducted by ERM and jointly commissioned by Ceres and Persefoni on this question and recommend that CARB consider the 2022 research and 2023 addendum filed with the SEC.

5. Should the state require reporting directly to CARB or contract out to an "emissions" and/or "climate" reporting organization?

It is crucial that covered entities have access to an easy-to-use portal to submit their data and that a public user-friendly website provide access to GHG emissions data and assurance reports from all reporting entities. It's also important to provide a platform that presents both users and providers of the information as much standardization and clarity as possible and ensures operability with other states or markets. If CARB were to contract out to an external reporting organization care must be taken that all climate disclosure required be located outside of a paywall and publicly available to all investors, stakeholders, regulators and companies for inspection and use.

6. If contracting out for reporting services, are there non-profits or private companies that already provide these services?

Many investors favor the disclosure platform provided by CDP; a nonprofit formerly known as the Climate Disclosure Project. CDP's infrastructure may help CARB achieve its objectives because thousands of companies are already familiar with its platform. CDP has done extensive work to align with emerging standards and its online platform allows respondents to report climate data in line with IFRS S2. Another option is the Climate Registry, which has demonstrated success in administering an independent, publicly accessible registry, without scoring or grading submissions. This California-based nonprofit has strong ties to the state and extensive experience supporting organizations with emissions reporting and reductions.

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

CARB should consult IFRS S2 for additional guidance regarding the specific questions around boundary setting, apportioning emissions in multiple ownership, and reporting by sector vs business unit. CARB should maintain strong fidelity to the GHG Protocol regarding comprehensive reporting of scopes 1,2, and 3 reporting.

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

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?

We welcome SB 253's requirement that covered entities must obtain independent third-party assurance for their greenhouse gas emissions disclosures. There are currently many options available to reporting entities, including CPA and non-CPA firms. Recognizing that low-quality assurance presents a risk to investors, we support adopting existing definitions from prevailing assurance standards such as ISO 14064-3, ISAE 3000/3410, AA1000AS.

We also recognize that some reporting companies require time to build capacity and develop the robust internal processes and procedures needed to support reasonable assurance. Should CARB determine that limited assurance is a necessary practical starting point for some reporters, we urge that its rules include an expectation of obtaining reasonable assurance over a limited period of time. It is important that CARB is able to provide markets with increasingly strong confidence on Scope 3 emissions in particular.

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:
c. What frequency (annual or other) and time period (1 year or more) are currently used for reporting?

Voluntary reporting of scopes 1 and 2 emissions varies widely in their timing and frequency of reporting complicating investor comparisons of data. Requiring annual data at the same time as financial reporting would add consistency for both investors and companies.

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

In our experience, data is not typically available until at least the 2nd quarter of the following year. A period of six-nine months following the end of the fiscal year should support the range of reporters covered by the 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?

ICCR suggests that CARB follow the specific recommendations submitted by the non-profit organization Ceres on this point, as informed by their extensive interviews with companies that will be subject to the law.

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.)?

Investors benefit from the synced timeframe provided by a standardized reporting year because it results in better data consistency. However, we realize that companies can benefit from being able to sync reporting with financial calendar years. CARB will need to consult with companies about the inherent difficulties of accommodating that demand.

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

Relevant climate frameworks and standards include IFRS S2 Climate-related disclosures, TCFD framework, and European Sustainability Reporting Standards (ESRS), although we note that the TCFD framework is being phased out and IFRS S2 is the successor standard. CDP is fully aligned with IFRS S2 but only substantially aligned with ESRS. Additional relevant information is provided by Global Reporting Initiative (GRI), numerous stock exchanges, CDP, and various specialized sector frameworks

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

Investors currently find relevant climate-related information in various locations, such as a company's regulated reports (10-K, 20-F, and proxy statements) and a variety of non-regulated disclosures. The latter category is especially disparate, including voluntary company reports that come with a wide range of titles, labels and standards. Since IFRS S2 is the successor standard to TCFD, companies should be transitioning to the approaches in IFRS S2 as a minimum baseline. As we noted elsewhere, the IFRS S2 has gaps regarding Scope 3 disclosure and CARB should ensure that Scope 3 disclosure is prioritized in current rules and monitor future opportunities to enhance disclosures.

h. 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?

TCFD does not require companies to report on Scope 3 emissions, which is a critical current market gap. Improved information is needed by investors seeking to manage and understand climate risk at the sector, portfolio, and asset class levels. Further, the TCFD does not provide enough guidance on climate transition plans, nor climate policy strategy to achieve existing climate targets.

i. 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?

As the global standard setter for securities regulation, IOSCO is engaged in guiding the development of climate-related disclosures and IOSCO committees have tracked country-level climate reporting for over a decade. IOSCO has endorsed IFRS S1 and S2 as a baseline for sustainability standards. As CARB moves forward with its standards, it should track country-specific climate reporting developments, including both stock exchange listing requirements and/or regulations. Key markets include Japan, China, Australia, New Zealand, Brazil, Singapore, the UK, Canada, and Hong Kong.

The European Union has instituted several laws across its jurisdiction on climate reporting, including the Non-financial Reporting Directive (NFRD), the CSRD and CSDDD which are currently being debated for amendment by the European Parliament, and the European Sustainability Reporting Standards (ESRS). Many EU members are additionally implementing IFRS S2 regulations into their home markets, further improving interoperability. It is important to note that some countries are also moving ahead of S2 requirements.

In addition to this work, ICCR urges CARB to consider the need for further development in Scope 3 reporting for investors, which is not yet adequately addressed in IFRS S2.

Thank you for the opportunity to comment. If you have any questions, please contact Erica Lasdon at elasdon@iccr.org.

Sincerely,

Josh Zinner,
CEO
Interfaith Center on Corporate Responsibility