



HOT TOPIC

# Climate in the US

**Draft regulations coming mid-October for California climate laws**

Updated August 2025

**2026 reporting will not be pushed back, with CARB set to issue draft regulations in mid-October, final regulations in December.**

## The 2-minute download

The California Air Resources Board (CARB) is developing regulations and guidance that will underpin California climate laws, SB-253 (GHG emissions) and SB-261 (climate risks), as amended by SB-219 and added to the California Health and Safety Code.

To support this process, CARB has hosted two public workshops so far. The August 21 [workshop](#) delivered key updates on CARB staff's latest thinking ('early-stage proposals') and what's coming next. The following are our highlights, with further information throughout this Hot Topic.

## Draft timeline for regulations

CARB plans to issue draft regulations in mid-October – covering at least scoping and fees – which will be open for public comment until November 30. Regulations would be finalized in December.

## Early-stage proposals

- Scoping:
  - Non-profits would be excluded.
  - Staff are exploring public databases to help establish which companies are 'doing business in California'.
- GHG emissions:
  - First reports would be due by June 30, 2026, covering fiscal year 2025.
  - Draft reporting templates will be published for public input by September 30.
- Climate risk:
  - Reports would include streamlined disclosures based on the 2017 recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) – including governance, strategy, risk management, and metrics and targets.
  - Opportunities would be included, but greenhouse gas (GHG) emissions and scenario analysis disclosures could be excluded from the first report.

## Source and applicability

- US business entities (including US subsidiaries of non-US companies): Climate Corporate Data Accountability Act (SB-253), Greenhouse gases: climate-related financial risk Act (SB-261), as amended by SB-219, [Greenhouse gases: climate corporate accountability: climate-related financial risk](#)
- Companies with specified activities in California: [Voluntary carbon market disclosures](#) (AB-1305) and [proposed amendments](#) (AB-2331)

This Hot Topic often refers to a 'company' for understandability. However, the laws themselves use the following defined terms: 'reporting entity' in SB-253, 'covered entity' in SB-261, and 'business entity' and 'entity' in AB-1305.

## Background

In the movement to improve transparency and standardize climate-related disclosures, California passed the following laws, signed by the Governor in October 2023.

- **GHG emissions law.** SB-253, the *Climate Corporate Data Accountability Act*, mandates the disclosure of GHG emissions.
- **Climate risks law.** SB-261, the *Greenhouse gases: climate-related financial risk Act*, mandates the disclosure of climate-related financial risks and measures adopted to reduce and adapt to such risks.

The above laws were amended by SB-219, which was signed into law by the Governor in late September 2024, and added to the California Health and Safety Code.

CARB is developing regulations and guidance that will underpin the application of these laws. It expects to issue draft regulations in mid-October – covering at least scoping and fees – with regulations being finalized in December 2025. The process that CARB is following and the implications for companies are discussed later in this Hot Topic, [CARB regulations](#).

- **Carbon offset law.** AB-1305, the *Voluntary carbon market disclosures Act*, mandates disclosures about voluntary carbon offsets and emissions reduction claims. Proposed AB-2331 would have delayed the effective date for reporting to July 1, 2025 but failed to pass before the end of California's 2024 legislative session.

## A broad scope

### GHG emissions and climate risks

SB-253 and SB-261 apply to both public and private US companies (and other business entities) that do business in California – whether or not they are physically present in the state. There are four elements to the respective scopes, which are partially aligned.

	SB-253 (GHG emissions)	SB-261 (climate risks)
<b>Types of entities:</b>	Corporation, partnership, limited liability company or other business entity formed under the laws of California, any other US state or the District of Columbia, or under an act of Congress	
<b>Exclusions:</b>	None	Insurance companies
<b>Revenue:</b>	> \$1 billion annually	> \$500 million annually
<b>Nexus to California:</b>	Doing business in California	

The following are early-stage proposals, which remain open to public comment and change as CARB develops draft regulations as part of its formal rulemaking process (see [CARB regulations](#)).

- 'Total revenue' could be defined as (1) gross receipts as set forth in California Revenue and Taxation Code Section 25120(f)(2), or (2) total global amount of money or sales a company receives from its business activities, such as selling products or providing services.
- 'Doing business in California' could be defined based on a company's presence on the California Secretary of State Business Entity public database. CARB staff plan to publish an initial list of companies they believe are doing business in California, although this is intended to be helpful rather than determinative.
- Exempted entities would include non-profits, companies whose only business in California is the presence of teleworking employees, and companies whose only activity in California consists of wholesale electricity transactions that occur in interstate commerce. Government entities are excluded because they are not formed under 'business entity' laws.

## Carbon offsets

AB-1305 applies to both public and private companies – both US and non-US, and regardless of size – that undertake specified activities in California:

- business entities marketing or selling voluntary carbon offsets in California;
- entities operating in California that purchase or use voluntary carbon offsets sold within the state and make certain claims (e.g. achievement of net-zero emissions); and
- entities operating in California that make certain claims within the state (e.g. achievement of net-zero emissions, significant reductions in GHG emissions).

## Targeted disclosures

The SB-253 and SB-261 disclosures leverage existing frameworks with additional relief for companies already reporting climate risk information.

	SB-253 (GHG emissions)	SB-261 (climate risks)	AB-1305 (carbon offsets)
<b>Disclosures:</b>	Scopes 1, 2 and 3 GHG emissions	Climate-related financial risks and measures adopted to reduce and adapt to such risks	Granular disclosures about carbon offset projects and programs, and GHG emissions related to claims made
<b>Framework:</b>	GHG Protocol	Task Force on Climate-related Financial Disclosures (TCFD)	None
<b>Framework relief:</b>	None	Application of equivalent frameworks permitted	N/A
<b>Reporting relief:</b>	Using other prepared reports; reporting at the parent level permitted	Reporting at the parent level permitted	None
<b>Penalties:</b>	Non-filing, late filing or other failure to meet requirements – up to \$500,000 per year	Failure to make report publicly available or publishing an inadequate or insufficient report – up to \$50,000 per year	For each day information is not available or is inaccurate, \$2,500 per violation – up to \$500,000 in total

## GHG emissions

SB-253 requires companies to report GHG emissions in accordance with the GHG Protocol, including the Corporate Accounting and Reporting Standard and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, developed by the World Resources Institute and the World Business Council for Sustainability Development. SB-253 allows companies to meet their reporting obligation using reports prepared under other national or international reporting requirements, as long as those reports satisfy all of the Act's requirements.

The following definitions are relevant to GHG emissions reporting.

- **Scope 1.** All direct GHG emissions that stem from sources that a company owns or directly controls, regardless of location, including but not limited to fuel combustion activities.
- **Scope 2.** All indirect GHG emissions from consumed electricity, steam, heating, cooling purchased or acquired by a company, regardless of location.
- **Scope 3.** Indirect upstream and downstream GHG emissions other than scope 2 emissions, from sources that the company does not own or directly control and may include, but are not limited to, purchased goods and services, business travel, employee commutes, and processing and use of sold products.

These concepts and the accounting under the GHG Protocol are explained in our Handbook, [GHG emissions reporting](#).

CARB plans to publish draft reporting templates, with proposed data fields, for public consultation by the end of September 2025. These templates would include the option to report other actions that reduce GHG emissions – e.g. investments in renewable electricity.

If the disclosures are made at a parent level, a subsidiary in scope of SB-253 need not make its own separate disclosures. Whether the parent needs to be a US company is expected to be resolved by CARB as it develops regulations (see [CARB regulations](#)).

## Climate risks

SB-261 requires companies to report climate-related financial risks under the 2017 recommendations of the TCFD or successor body, plus measures adopted to reduce and adapt to those risks. The TCFD framework includes recommended disclosures within four core pillars: governance, strategy, risk management, and metrics and targets.

Regarding a successor body, the TCFD's monitoring activities have been taken over by the IFRS Foundation, which governs the activities of the International Sustainability Standards Board. The Act specifically refers to compliance with IFRS® Sustainability Disclosure Standards as an acceptable alternative but does not rule out other laws and regulations. In particular, European Sustainability Reporting Standards leverage the TCFD framework.

Regarding the disclosure of climate-related financial risks, the following are early-stage proposals based on, but less extensive than, the TCFD's 2017 recommendations.

- **Governance.** Structure for identifying, assessing and managing climate-related financial risks (and opportunities).
- **Strategy.** Actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.
- **Risk management.** How the company identifies, assesses and manages climate-related risks.

- **Metrics and targets.** Those used to assess and manage relevant climate-related risks and opportunities.

The first report could exclude GHG emissions and scenario analysis disclosures. To the extent a company is not able to provide other required disclosures, it would disclose the reasons and its plans for future disclosures.

If the disclosures are made at a parent level, a subsidiary in scope of SB-261 need not make its own separate disclosures. Whether the parent needs to be a US company is expected to be resolved by CARB as it develops regulations (see [CARB regulations](#)).

### Penalties related to GHG emissions and climate risks

Penalties for violations will be imposed and recovered by CARB in administrative hearings. In imposing penalties, it will consider all relevant circumstances, including:

- the company's past and present compliance with the requirements; and
- whether the company took good faith measures to comply with the law and when those measures were taken.

Related to GHG emissions, there will be no penalty for any misstatements with regard to scope 3 emissions disclosures made on a reasonable basis and disclosed in good faith. In addition, penalties assessed on scope 3 reporting between 2027 and 2030 will occur only for non-filing.

In December 2024, CARB released a notice that it will not take enforcement action for incomplete reporting in the first year of reporting against companies that:

- don't possess the information related to scopes 1 and 2 GHG emissions, or
- aren't collecting data as of December 5, 2024,

as long as they make a good faith effort to retain all data relevant to emissions reporting for the company's prior fiscal year.

### Carbon offsets

AB-1305 applies to voluntary arrangements (e.g. carbon offset, offset credit, retail offset) related to any product sold or marketed in California that makes claims that "connote that the product represents or corresponds to a reduction in the amount of greenhouse gases present in the atmosphere or that prevents the emission of greenhouse gases into the atmosphere that would have otherwise been emitted." The law does not apply to offsets under compliance programs – e.g. California's Cap-and-Trade Program.

For companies in scope of any of the three parts of AB-1305, detailed disclosures are required.

Scoping	Summary of disclosures
Companies <b>marketing or selling voluntary carbon offsets</b> in California	<ul style="list-style-type: none"> <li>• Details of the carbon offset project – e.g. protocol used to estimate emissions reductions or removal benefits, project timeline, whether there is independent third-party verification.</li> <li>• Details of the accountability measures if the project is not completed or does not meet the projected emissions reductions or removal benefits – e.g. actions the entity will take if carbon storage projects are reversed.</li> <li>• Relevant data and calculation methods to independently reproduce and verify the emissions reduction credits.</li> </ul>

Scoping	Summary of disclosures
Companies operating in California that <b>purchase or use voluntary carbon offsets</b> sold within the state and make certain claims	Information about each project or program – e.g. name of the company selling the offset, offset project type, whether there is independent third-party verification.
Companies operating in California that <b>make certain claims</b> within the state	Information about the GHG emissions associated with the claims – e.g. how the claim was determined to be accurate, how interim progress is measured, whether there is independent third-party verification.

Penalties for reporting violations will be assessed and recovered in a civil action brought in the name of the people of the State of California by the Attorney General or by a district attorney, county counsel or city attorney in a court of competent jurisdiction.

## 2026 reporting dates confirmed despite regulatory delays

GHG emissions and climate risk reporting is set to start in 2026 notwithstanding that CARB did not meet the July 1, 2025 deadline imposed by SB-253 for it to develop the underlying regulations (see [CARB regulations](#)).

	SB-253 (GHG emissions)	SB-261 (climate risks)	AB-1305 (carbon offsets)
<b>Effective dates:</b>	<ul style="list-style-type: none"> <li>Scopes 1, 2: 2026</li> <li>Scope 3: 2027</li> </ul>	On or before Jan 1, 2026	Jan 1, 2024 [Proposed: July 1, 2025]
<b>Reporting frequency:</b>	Annual	Biennial	At least annually
<b>Reporting location:</b>	Digital reporting platform	Company website	Company website

In setting the reporting timelines, CARB is required to consider both the typical period for receiving emissions data (e.g. from suppliers) and the capacity for independent assurance engagements (see [Assurance required from the outset](#)).

Reporting of scope 3 GHG emissions will begin one year later, in 2027, on a schedule (i.e. reporting lag from scopes 1 and 2) to be determined by CARB. The first report on climate risks is due on or before January 1, 2026 (as enacted) – i.e. before the first reporting of GHG emissions.

To facilitate reporting before regulations are final, CARB will not seek to impose penalties for ‘good faith efforts’ (see [Penalties related to GHG emissions and climate risks](#)). In addition, CARB has indicated that it will keep lines of communication open during 2025 and share its latest thinking (see [CARB regulations](#)).

CARB staff’s early-stage proposal is a June 30, 2026 deadline for the first year of GHG emissions reporting that would relate to fiscal year 2025.

## Assurance required from the outset

Assurance over GHG emissions is graduated, starting with limited assurance and scopes 1 and 2 GHG emissions.



	SB-253 (GHG emissions)	SB-261 (climate risks)	AB-1305 (carbon offsets)
<b>Assurance:</b>	<ul style="list-style-type: none"> <li>Scopes 1 and 2: limited assurance from 2026; reasonable assurance from 2030</li> <li>Scope 3: TBD</li> </ul>	No requirement	No requirement

Although assurance over scope 3 GHG emissions is not immediately required, SB-253 instructs CARB to decide by January 1, 2027 whether to require it. If CARB decides that scope 3 GHG emissions should be assured, a requirement for limited assurance would begin in 2030.

SB-253 requires the assurance provider to be an independent third party, and to have “significant experience in measuring, analyzing, reporting, or attesting to the emission of greenhouse gasses and sufficient competence and capabilities necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements.” However, the Act does not mandate the use of specific assurance standards.

CARB is required to review the qualifications for third-party assurance providers during 2029, and to implement any updates by January 1, 2030.

## CARB regulations

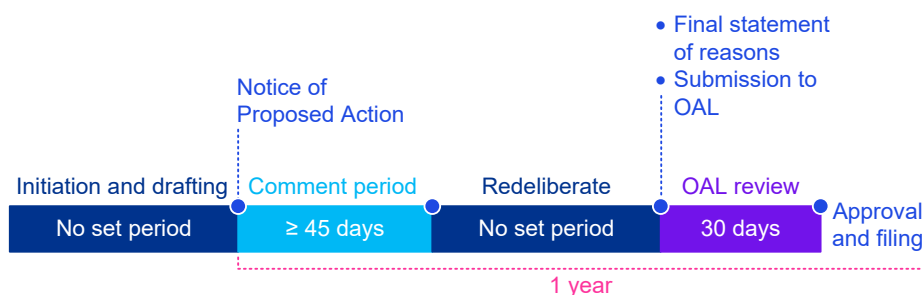
This section outlines the process CARB will follow in developing regulations. Operating within this process, CARB held public workshops on May 29 and August 21 – where it listened to stakeholder feedback and shared its thinking as it develops draft regulations and guidance. CARB staff are inviting public input on their early-stage proposals until September 11.

CARB plans to issue draft regulations on October 14 – covering at least scoping and fees – which will be open for public comment until November 30. Following redeliberation, the regulations would be subject to final consideration by the Board on December 11 and 12.

This Hot Topic includes key developments from the August 21 workshop. For later news on CARB developments and insights, visit our webpage, [California climate laws](#).

In developing regulations, CARB will follow California’s structured process for adopting regulations set forth in the Administrative Procedure Act (APA). The objective of the APA process is to ensure that regulations are developed with public input, legal clarity and accountability.

There are six steps in the APA process that comprise two distinct phases (before and after triggering a set period to finalize regulations). As illustrated in the diagram, CARB has one year from the date of releasing proposed regulations for public comment (Notice of Proposed Action) through to final approval and filing.



The following is an overview of the six steps in the APA process.

<b>Step 1: Initiation and drafting</b>	<ul style="list-style-type: none"> <li>The process begins when CARB identifies the need for new regulations and drafts the proposed regulations – including a statement of reasons, economic impact assessments and any supporting documentation.</li> </ul>
<b>Step 2: Notice of Proposed Action</b>	<ul style="list-style-type: none"> <li>Once CARB has drafted proposed regulations, it will solicit public comments by issuing a Notice of Proposed Action.</li> <li>From this point, CARB has one year to issue final regulations in Step 6. If it fails to do that, the process begins again.</li> </ul>
<b>Step 3: Public comment period</b>	<ul style="list-style-type: none"> <li>The comment period must be at least 45 days.</li> <li>During this time, interested parties can submit written comments or request public hearings.</li> </ul>
<b>Step 4: Redeliberation</b>	<ul style="list-style-type: none"> <li>Following the comment period, CARB will redeliberate.</li> <li>If substantial changes are made to the proposed regulations in redeliberation, an additional 15-day comment period (Step 3) must be provided for the revised text.</li> <li>This step culminates in the preparation of a ‘final statement of reasons’, which explains the rationale behind the regulations, summarizes and responds to public comments and outlines any changes made.</li> </ul>
<b>Step 5: Submission to the OAL</b>	<ul style="list-style-type: none"> <li>CARB will submit its final rulemaking file to the Office of Administrative Law (OAL), which will assess whether APA standards have been met.</li> <li>The OAL will have 30 working days to complete its review.</li> </ul>
<b>Step 6: Approval and filing</b>	<ul style="list-style-type: none"> <li>Assuming the OAL approves the regulations, it will file them with the Secretary of State to become law.</li> <li>The regulations’ effective date(s) will depend on what type of regulations they are and when they are filed, but regulations typically become effective on one of four quarterly dates unless otherwise specified.</li> <li>If the OAL does not approve the regulations and Step 6 is not completed within a year of Step 2, the process will begin again.</li> </ul>

In its review pursuant to Step 5 of the APA process, the OAL will assess the regulations against specific standards.

<b>Authority</b>	CARB must have legal authority to adopt the regulations.
<b>Reference</b>	The regulations must properly cite the relevant statutes or other legal provisions.
<b>Consistency</b>	The regulations must not conflict with existing laws or other regulations adopted by CARB and should align with the broader legal and regulatory framework.
<b>Clarity</b>	The regulations must be written so that they are easily understood by those who are directly affected. This includes using plain language, avoiding jargon and ensuring the regulations are internally consistent and unambiguous.
<b>Non-duplication</b>	The regulations must not in effect duplicate any other state law or regulations.
<b>Necessity</b>	The regulations must be essential to carry out the purpose of the law.



## KPMG resources

For up-to-date news and insights on the California climate laws, including CARB's development of regulations, visit our webpage, [California climate laws](#)

For other sustainability reporting news affecting US companies, visit our collection of resources at [kpmg.com/us/sustainabilityreporting](https://kpmg.com/us/sustainabilityreporting)

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