

CARB has published draft resources to assist companies, but regulations delayed until Q1 2026; no change in reporting deadlines.

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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 so far hosted two public workshops and published various draft resources. The following are our highlights, with further information throughout this Hot Topic.

Draft timeline for regulations

Draft regulations were expected in October with finalization in December. CARB has delayed initial rulemaking (including related to fees) to Q1 2026 as it deals with the volume of public comments received. This delay does not change the reporting deadlines in the laws – 2026 (exact date to be determined) for GHG emissions and January 1, 2026 for climate risks.

Draft guidance and early-stage proposals

- Scoping:
 - On September 24, a preliminary list of covered entities was published.
 - Based on early-stage proposals, non-profits would be excluded.
- GHG emissions:
 - On October 10, a draft reporting template was published with comments due by October 27.
 - Based on early-stage proposals, first reports would be due by June 30, 2026, covering fiscal year 2025.
- Climate risk:
 - On September 2, a draft disclosure checklist was published.
 - Following the checklist, 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.

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 bring initial rulemaking (including related to fees) to the board in Q1 2026. 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)	
Types of entities:	formed under the laws of Califor	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	
Exclusions:	None	Insurance companies	
Revenue:	> \$1 billion annually	> \$500 million annually	
Nexus to California:	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. On September 24, CARB published an initial list of companies it believes are doing business in California; the list is intended to be helpful rather than determinative and companies remain responsible for their own analysis under the laws.
- 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 netzero 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)
Disclosures:	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
Framework:	GHG Protocol	Task Force on Climate- related Financial Disclosures (TCFD)	None
Framework relief:	None	Application of equivalent frameworks permitted	N/A
Reporting relief:	Using other prepared reports; reporting at the parent level permitted	Reporting at the parent level permitted	None
Penalties:	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.

On October 10, CARB published a draft template for reporting scopes 1 and 2 GHG emissions under SB-253. Use of the template is voluntary for 2026 reporting and further guidance is expected in later reporting cycles. CARB is soliciting public feedback until October 27.

The draft template includes specific data fields for granular reporting on GHG emissions, including by source and gas, and includes the option to report other actions that reduce GHG emissions – e.g. investments in renewable electricity.

If the disclosures are made at the 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.

On September 2, CARB published a draft disclosure checklist to be used as a starting point for companies complying with SB-261. The disclosures in the draft are 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.

Opportunities would be included in the report. GHG emissions could be excluded from the first report, and resilience disclosures need not include a formal qualitative scenario-based assessment. To the extent a company is not able to provide other disclosures, it would disclose the reasons and its plans for future disclosures.

If the disclosures are made at the 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, between 2027 and 2030, penalties will be assessed on scope 3 reporting only for non-filing.

In December 2024, CARB released a notice stating 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 marketing or selling voluntary carbon offsets in California California Summary of disclosures 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

Scoping	Summary of disclosures	
	 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 	
	 Relevant data and calculation methods to independently reproduce and verify the emissions reduction credits 	
Companies operating in California that purchase or use voluntary carbon offsets 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 make certain claims 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)
Effective dates:	Scopes 1, 2: 2026Scope 3: 2027	On or before Jan 1, 2026	Jan 1, 2024 [Proposed: July 1, 2025]
Reporting frequency:	Annual	Biennial	At least annually
Reporting location:	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)
Assurance:	 Scopes 1 and 2: limited assurance from 2026; reasonable assurance from 2030 Scope 3: TBD 	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 has published various resources and held two public workshops – where it listened to stakeholder feedback and shared its thinking as it develops draft regulations and guidance.

Draft regulations were expected in October with finalization in December. Due to the volume of public comments received, CARB has delayed initial rulemaking (including related to fees) to Q1 2026.

For the latest 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.

Step 1: Initiation and drafting	 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.
Step 2: Notice of Proposed Action	 Once CARB has drafted proposed regulations, it will solicit public comments by issuing a Notice of Proposed Action. From this point, CARB has one year to issue final regulations in Step 6. If it fails to do that, the process begins again.
Step 3: Public comment period	 The comment period must be at least 45 days. During this time, interested parties can submit written comments or request public hearings.
Step 4: Redeliberation	 Following the comment period, CARB will redeliberate. 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. 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.
Step 5: Submission to the OAL	 CARB will submit its final rulemaking file to the Office of Administrative Law (OAL), which will assess whether APA standards have been met. The OAL will have 30 working days to complete its review.
Step 6: Approval and filing	 Assuming the OAL approves the regulations, it will file them with the Secretary of State to become law. The regulations' effective date(s) will depend on the type of regulations and when the regulations are filed, but regulations typically become effective on one of four quarterly dates unless otherwise specified. 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.

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

Authority	CARB must have legal authority to adopt the regulations.
Reference	The regulations must properly cite the relevant statutes or other legal provisions.
Consistency	The regulations must not conflict with existing laws or other regulations adopted by CARB and should align with the broader legal and regulatory framework.
Clarity	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.
Non- duplication	The regulations must not in effect duplicate any other state law or regulations.
Necessity	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.

Contact us at KPMG US

Anita Chan
Audit Partner
achan@kpmg.com

Yoshimitsu Sato Senior Manager, Dept. of Professional Practice ysato4@kpmg.com Julie Santoro
Partner, Dept. of Professional Practice
jsantoro@kpmg.com

Marissa Spencer
Director, Dept. of Professional Practice
marissaspencer@kpmg.com

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