KPMG

California climate laws

Guide



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Understanding California's climate laws

California's climate disclosure laws mark a meaningful shift in how US states formally expect companies to think about climate-related information – how it is gathered, how it is evaluated and how it is communicated. For finance and sustainability teams, these laws sit at the intersection of regulatory compliance, operational reality and evolving reporting practice. That intersection can be challenging to navigate, particularly as requirements continue to develop through regulation and enforcement guidance.

This guide is intended to help bridge that gap. It is designed to support teams that are responsible for preparing, reviewing or overseeing disclosures under SB-253 (GHG emissions), SB-261 (climate risks) and AB-1305 (carbon offsets) by explaining what the laws require, how the requirements fit together and where judgment and interpretation are likely to be needed.

Throughout, we focus on the questions we hear most often in practice and on the decisions companies are making now as they prepare for reporting.

We have written this guide with the understanding that many companies are already managing multiple climate and sustainability reporting obligations across jurisdictions. While the California climate laws are distinct, they do not exist in isolation. Where relevant, we highlight connections to existing reporting frameworks and common implementation considerations.

As with all regulation in this area, change should be expected. We hope this guide serves as a practical reference as the regulatory landscape continues to take shape.

Christina Abbott

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About this publication

The purpose of this guide is to assist you in understanding the disclosure and reporting requirements of the following California climate disclosure laws, which are incorporated into The California Health & Safety Code:

- SB-253, The Climate Corporate Data Accountability Act, as amended by SB-219, Final amendments to SB-253 and SB-261;
- SB-261, Climate-Related Financial Risk Act, as amended by SB-219, Final amendments to SB-253 and SB-261;
- AB-1305, Voluntary Carbon Market Disclosures Act.

While this guide is intended to help you navigate the requirements of the above laws and related regulations, it does not, and is not intended to, provide legal advice or otherwise provide interpretive legal guidance as to the meaning of the California climate laws. KPMG LLP does not practice law and such questions should be directed to qualified legal counsel.

Status of regulation

The initial regulation, underpinning the scoping rules and fees for SB-253 and SB-261, was approved by the Office of Administrative Law (OAL) and became effective on October 12, 2026 (see Question 1.3.10). CARB is moving ahead with developing a subsequent regulation that will elaborate on reporting requirements under SB-253 for 2027 and beyond (see Question 1.2.50). CARB previewed this regulation at its July workshop – see our digital hub for the latest.

References to the climate laws

Where applicable, our commentary is referenced to the following:

- SB: Senate Bill
- AB: Assembly Bill
- HSC: The California Health & Safety Code section added / amended

Reference	Name	Approved	HSC section
SB-253	The Climate Corporate Data Accountability Act	Oct 2023	38532
SB-261	Climate-Related Financial Risk Act	Oct 2023	38533
SB-219	Final amendments to SB-253 and SB-261, which contains the complete text	Sep 2024	38532, 38533
AB-1305	Voluntary Carbon Market Disclosures Act	Oct 2023	44475, 44475.1, 44475.2, 44475.3

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We also reference the following:

Reference	Description
APA	Administrative Procedure Act, which establishes rulemaking procedures and standards for state agencies in California
CARB-253	Draft Scope 1 and 2 GHG Reporting Template, published by CARB on October 10, 2025
CARB-261	Climate Related Financial Risk Report Checklist, published by CARB on November 17, 2025
CARB 05/25	Public workshop hosted by CARB staff in May 2025
CARB 08/25	Public workshop hosted by CARB staff in August 2025
CARB 11/25	Public workshop hosted by CARB staff in November 2025
CARB 03/26	Public workshop hosted by CARB staff in March 2026
CARB 07/26	Public workshop hosted by CARB staff in July 2026
CARB-EA	Enforcement Advisory, Climate-Related Financial Risk Reporting (SB 261), published by CARB on December 1, 2025
CARB-EN	The Climate Corporate Data Accountability Act Enforcement Notice, published by CARB on December 5, 2024
CCR	California Code of Regulations, which is the official compilation and publication of the regulations adopted, amended or repealed by state agencies in California
Docket	Climate-Related Financial Risk Reports (SB 261) Docket
FAQ	FAQ document, published by CARB on November 17, 2025
FSOR	Addendum to the Final Statement of Reasons for Rulemaking, published by CARB along with the initial regulation which explains its July 2026 modifications and responds to public comments
GUD	California Corporate Greenhouse Gas Reporting: Guidance for SB 253 2026 Reporting Submittals, published by CARB on September 1, 2026
IR	California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Initial Regulation, effective October 12, 2026
RTC	California Revenue and Taxation Code

The following are examples of how we reference:

- 38532(b)(2) is HSC Section 38532 (i.e. SB-253 as amended by SB-219), paragraph (b)(2)

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- 38533(a)(4) is HSC Section 38533 (i.e. SB-261 as amended by SB-219), paragraph (a)(4)
- IR 96071(b) is section 96071, paragraph (b), of Article 6 Subarticle 1 of the California Code of Regulations

Terminology: company vs entity

In general, this guide refers to a 'company' for understandability. However, the laws and the initial regulation themselves use the following defined terms:

- SB-253: Reporting entity
- SB-261: Covered entity
- AB-1305: Business entity and entity (depending on the topic)
- IR: Business entity

We revert to the specific terminology in questions where the definition is important, primarily in discussing scope.

Abbreviations

We use the following abbreviations in this guide:

AICPA	American Institute of Certified Public Accountants
APA	(California) Administrative Procedure Act
AT-C	AICPA Statements on Standards for Attestation Engagements, Clarified (AT-C section)
BPC	(California) Business & Professions Code
CARB	California Air Resources Board
CCR	California Code of Regulations
ESRS	European Sustainability Reporting Standards
GHG	Greenhouse gases
GRI	Global Reporting Initiative
HSC	California Health & Safety Code
ISSB	International Sustainability Standards Board
OAL	(California) Office of Administrative Law
REC	Renewable energy certificate
RTC	California Revenue and Taxation Code
SASB	Sustainability Accounting Standards Board (Standards)
TCFD	Task Force on Climate-related Financial Disclosures
VCO	Voluntary carbon offset

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Stay up to date

This guide will be updated periodically to reflect the latest status of the California climate laws. CARB staff continue to host public workshops, which may result in additional guidance or clarifications being published.

For breaking news delivered on a more timely basis, including news from CARB workshops and the status of litigation related to SB-253 and SB-261, bookmark our digital hub, All about California's climate laws. The digital hub includes access to our Hot Topic on the California climate laws, which provides an executive summary.

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1. Legislative and rulemaking process

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New item added in this edition **

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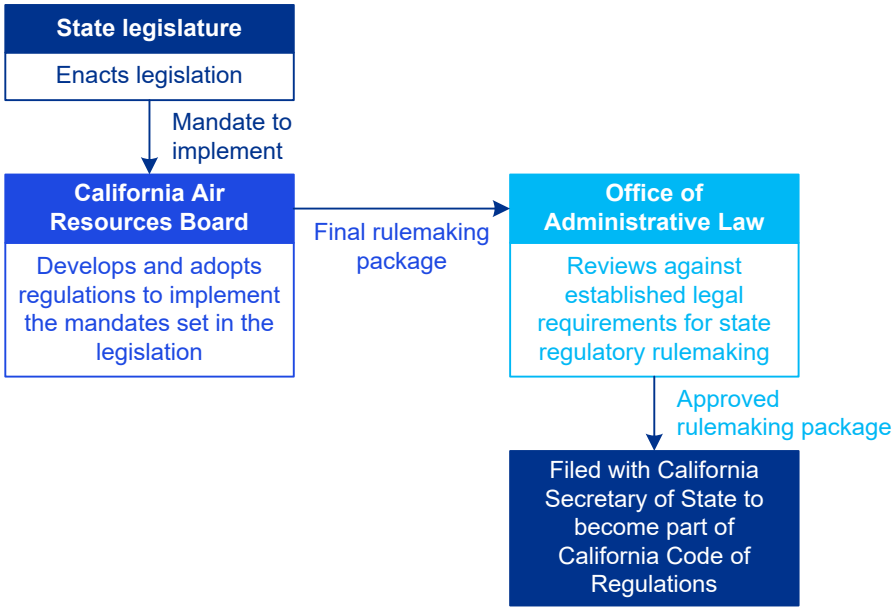
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1.1 An overview

California's climate laws include:

- SB-253, The Climate Corporate Data Accountability Act, as amended by SB-219, Final amendments to SB-253 and SB-261;
- SB-261, Climate-Related Financial Risk Act, as amended by SB-219, Final amendments to SB-253 and SB-261;
- AB-1305, Voluntary Carbon Market Disclosures Act.

The following diagram summarizes the legislative and rulemaking process.



Generally, CARB's rulemaking spans several years, with regulatory changes typically becoming effective in Years 4-6 after a bill is signed. The formal rulemaking process usually takes 16-24 months. CARB's development of regulations for SB-253 and SB-261 is proceeding on an accelerated timeline compared to its typical rulemaking process.

- SB-253 and SB-261 were signed into law in 2023, and SB-219, which amended them, was signed into law in 2024.
- CARB approved its initial regulation (covering scoping and fees) on February 26, 2026, and it became effective on October 12, 2026 – within approximately 3 years of the original legislation being signed.

This rapid development for the initial regulation demonstrates an effort to meet the statutory deadlines for fee collection and initial reporting, while deferring more complex details to future regulatory actions.

AB-1305 (carbon offsets) was signed into law in 2023. No further rulemaking was required to support implementation.

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1.2 The laws and underlying regulation

Question 1.2.10
What is the status of SB-253 and SB-261?

SB-253 (GHG emissions) and SB-261 (climate risks) were signed into law in October 2023, and the subsequent amendments in SB-219 were signed into law in September 2024. However, the statutes themselves left many operational details unspecified, such as definitions, fees and reporting mechanisms.

The development of these operational requirements has taken time and created uncertainties for companies as they prepare for their first reporting. To counter this uncertainty, CARB provided relief in an SB-253 enforcement notice issued in December 2024 and has repeatedly emphasized its acceptance of 'good faith efforts' in the first year of reporting (see Question 3.4.20).

Further, as part of ongoing litigation related to the laws, in November 2025 the Ninth Circuit Court of Appeals issued an injunction halting enforcement of SB-261. CARB reacted by publishing an Enforcement Advisory indicating that it will not enforce the January 1, 2026 reporting deadline for SB-261 while an appeal is pending in the court. As a result, compliance is effectively voluntary for the time being (see Question 4.2.10).

Question 1.2.20
What is the role of CARB in implementing SB-253 and SB-261?

CARB is tasked with a number of responsibilities under the climate laws, including the following related to SB-253 (GHG emissions).

Responsibility	Reference
On or before July 1, 2025, develop and adopt regulations that require a company to disclose its GHG emissions annually and obtain assurance. Note: This deadline was missed and the initial regulation was approved by CARB on February 26, 2026 and became effective on October 12, 2026.	Question 1.3.10
Determine whether the annual reporting should be to CARB or to an 'emissions reporting organization' contracted by CARB.	Question 1.2.30
Determine the date in 2026 for the first reporting of scopes 1 and 2 GHG emissions.	Question 3.2.10
Determine the schedule for reporting scope 3 emissions on an annual basis starting from 2027 – i.e. the lag from reporting scopes 1 and 2.	Question 3.2.10

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Although CARB has specific mandates under SB-261, they are more administrative in nature (related to fees and penalties). However, key definitions used to determine the scope of SB-261 are identical to those in SB-253, which makes the development of regulations by CARB relevant to the implementation of both laws.

Question 1.2.30

What is the potential role of an 'emissions reporting organization' in implementing SB-253?

A nonprofit emissions reporting organization – with experience in GHG emissions reporting in California – may be contracted by CARB to act as a central implementation mechanism under SB-253 (GHG emissions). Key roles of the organization could include: [38532(b)(1), 38532(c), 38532(e)(1)]

- developing a reporting program to handle the required disclosures;
- making the emissions disclosures publicly available; and
- creating an accessible public digital platform to feature individual reporting entity data and aggregated multi-year data.

Question 1.2.40

What is the potential role of a 'climate reporting organization' in implementing SB-261?

A nonprofit climate reporting organization – with experience in climate-related financial risk disclosure by companies operating in California – may be contracted by CARB to act as a central implementation mechanism under SB-261 (climate risks). Key roles of the organization could include: [38533(a)(1), 38533(d)]

- preparing public reports that review disclosures, analyze systemic climate risks and identify inadequate reports; and
- convening stakeholders to gather input on best practices and potential updates to definitions or reporting frameworks.

Question 1.2.50**

What regulations implement SB-253 and SB-261?

CARB is implementing the climate laws through two separate regulations:

- **Initial regulation** establishes the annual fee program, core definitions that determine whether an entity is in scope (including 'total annual revenue' and 'doing business in California') for both SB-261 and SB-253, and the initial

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reporting deadline under SB-253. The OAL approved the regulation and filed it with the California Secretary of State on October 12, 2026. The regulation took effect immediately upon filing.

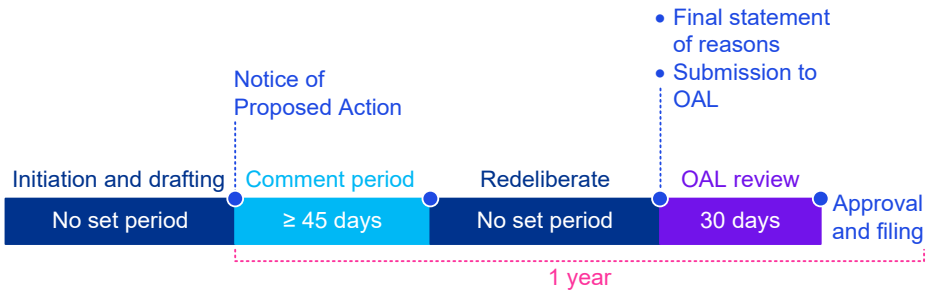
- **Subsequent regulation** covers only SB-253 and addresses reporting requirements under SB-253 for 2027 and beyond. This includes GHG emissions calculation methodologies, disclosure requirements for scope 1, scope 2, and scope 3, third-party assurance provider standards, assurance levels and recurring annual SB-253 compliance deadlines. In its public workshops, CARB presented preliminary concepts for these requirements – see our digital hub for the latest.

1.3 The rulemaking process

Question 1.3.10#
What is the process CARB follows in developing and adopting regulations?

The State of California follows a structured process for adopting regulations that is governed by 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 a proposed regulation 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 that CARB is following. [APA 11340-11361]

Step 1: Initiation and drafting	• The process begins when the state regulatory agency (e.g. CARB) identifies the need for new regulations and drafts the proposed regulation – including a statement of reasons, economic impact assessments and any supporting documentation.

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	• There are no set time constraints, notwithstanding that SB-253 (GHG emissions) required CARB to develop and adopt regulations by July 1, 2025. See Question 1.2.20. [38532(c)(1)]
Step 2: Notice of Proposed Action	• Once the agency has drafted the proposed regulation, it solicits public comments via a Notice of Proposed Action published by the OAL. • From this point, the agency has one year to issue a final regulation in Step 6. If it fails to do that, the process begins again. • A Notice of Proposed Action for CARB's initial regulation was published on December 26, 2025.
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. • The deadline for comments on CARB's initial regulation was February 9, 2026.
Step 4: Redeliberation	• Following the comment period, the agency redeliberates. • If substantial changes are made to the proposed regulation in redeliberation, an additional 15-day comment period (Step 3) is provided for the revised text. • This step culminates in the preparation of a 'final statement of reasons', which explains the rationale behind the regulation, summarizes and responds to public comments, and outlines any changes made. • CARB hosted a public hearing on February 26, 2026 at which it approved the initial regulation. This initial regulation was later modified to provide additional clarifications on July 27, 2026. The 15-day public comment period closed on August 11, 2026.
Step 5: Submission to the OAL	• The agency submits its final rulemaking file to the OAL, which assesses whether APA standards have been met (see Question 1.3.20). • The OAL has 30 working days to complete its review. • CARB first submitted its proposed regulation order to the OAL in May 2026, but later withdrew it in June 2026 to make clarifying changes. CARB resubmitted the package to OAL for review and approval on September 21, 2026.
Step 6: Approval and filing	• Assuming the OAL approves the regulation, it files the regulation with the Secretary of State to become law. • The regulation's effective date(s) will depend on what type of regulation it is, but regulations typically become effective on one of four quarterly dates unless otherwise specified. • If the OAL does not approve the regulation and Step 6 is not completed within a year of Step 2, the process begins again.

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- The OAL approved and filed the initial regulation with the Secretary of State on October 12, 2026, and it became effective upon filing rather than on a quarterly date.



Question 1.3.20

What standards does the OAL follow when it reviews regulations before approving them?

The OAL's review pursuant to Step 5 of the APA process (see Question 1.3.10) assesses a regulation against specific standards.

- **Authority.** CARB must have legal authority – under SB-253 (GHG emissions) and SB-261 (climate risks) – to adopt the regulation. See Question 1.2.20.
- **Reference.** The regulation must properly cite the relevant statutes or other legal provisions.
- **Consistency.** The regulation must not conflict with existing laws or other regulations adopted by CARB and should align with the broader legal and regulatory framework.
- **Clarity.** The regulation must be written so that it is easily understood by those who are directly affected. This includes using plain language, avoiding jargon and ensuring the regulation is internally consistent and unambiguous.
- **Non-duplication.** The regulation must not in effect duplicate any other state / federal law or regulation.
- **Necessity.** The regulation must be essential to carry out the purpose of the law.

Based on comments by CARB staff in a public workshop in May 2025, it appears that the clarity standard may be the most onerous to satisfy. Staff explained, for example, that the regulations cannot simply refer to the GHG Protocol for the measurement of GHG emissions even though that basis of measurement is in SB-253 itself (see Question 3.3.20). Instead, the regulation needs to include its own description of the measurement basis that stands alone and is unambiguous. [CARB 05/25]

In response to a question raised in the May 2025 workshop about TCFD reporting under SB-261, CARB staff explained that language such as 'may' and 'consider' in the TCFD recommendations cannot be used in the CARB regulation because such language is not clear and unambiguous. [CARB 05/25]

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Question 1.3.30

How is CARB handling the initiation and drafting step in the APA process?

The APA process creates an incentive to resolve as many issues as possible in Step 1 (initiation and drafting; see Question 1.3.10) for the following reasons:

- the one-year deadline to finalize regulations (Step 6) only begins when a Notice of Proposed Action is issued (Step 2); and
- comments raised in Step 3 need to be responded to as part of Step 4, making it advantageous to do sufficient work upfront to reduce the number of comments in Step 3.

CARB's first step was a public consultation that closed in March 2025. CARB then used the feedback as inputs to a series of public workshops hosted by the staff in 2025 (in May, August and November). Staff used the earlier workshops to introduce various early-stage proposals and solicit informal feedback.

CARB hosted two workshops in 2026 (March and July) to develop subsequent regulation for SB-253 reporting in 2027 and beyond (see Question 1.2.50). CARB's process to date has already facilitated public feedback that can be used as further input to its rulemaking initiatives.

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2. Scoping and fees

Detailed contents

Item significantly updated in this edition #

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2.1 An overview#

The following table summarizes the scoping and fees for SB-253, SB-261 and AB-1305.

	SB-253	SB-261	AB-1305
Content	GHG emissions	Climate risks, mitigation	Carbon offsets
Scope (some exemptions apply)	• US companies • Doing business in California • > $1B revenue	• US companies • Doing business in California • > $500M revenue	Companies marketing or selling voluntary carbon offsets in California, or operating in California and making certain claims
Doing business in California	Actively engaging in any transaction for the purpose of financial gain within California and: • being organized or commercially domiciled in California; or • having California sales exceeding $757,070 (updated annually), excluding wholesale sales of electricity occurring in interstate commerce.		N/A
Revenue calculation	• 'Total annual revenue', which is defined as 'gross receipts' in the RTC, evaluated at the individual business entity level excluding intercompany transactions. • 'Gross receipts' is broadly defined as the gross amounts realized on the: – sale or exchange of property; – performance of services; or – use of property or capital in a transaction that produces business income in which the income, gain or loss is recognized under the Internal Revenue Code.		N/A
Fees	• Payable by each in-scope company. • Amount for 2026 not yet determined. • Assessed on or before December 10 each calendar year, payable within 60 calendar days.		N/A

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2.2 Scoping

Question 2.2.10
What entities are in scope of the California climate laws?

SB-253 (GHG emissions) and SB-261 (climate risks)

The scoping tests under both SB-253 and SB-261 have three components: where the company is registered, where it does business, and its revenue.

- A 'reporting entity' (SB-253) or 'covered entity' (SB-261) is any partnership, corporation, limited liability company or other business entity formed under the laws of California, the laws of any other state of the US or the District of Columbia, or under an act of US Congress. [38532(b)(2), 38533(a)(4)]

  Although SB-253 and SB-261 use different terms, there is no difference in definition.

  The reporting entity / covered entity:

  - does not have to be physically present in the state;
  - could be public or private; but
  - must be a US company.

- A reporting entity / covered entity in scope is one that 'does business in California'. [38532(b)(2), 38533(a)(4)]

- The revenue thresholds are:

  - > $1 billion annually for SB-253; and [38532(b)(2)]
  - > $500 million annually for SB-261. [38533(a)(4)]

Under the initial regulation, the RTC is used to determine which companies do business in California (see Question 2.2.30) and their revenue (see Question 2.2.40). Certain entities that meet these tests are nonetheless exempt (see Question 2.2.20). [IR 96071(b)]

AB-1305 (carbon offsets)

AB-1305 applies to any of the following that undertake specified activities in California:

- business entities marketing or selling voluntary carbon offsets in California; [44475(a)]
- 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; or [44475.1(a)]
- entities operating in California that make certain claims within the state – e.g. achievement of net-zero emissions, significant reductions in GHG emissions. [44475.2(a)]

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Further, the scoping covers the following if they carry out a specified activity:

- both public and private companies;
- both US and non-US companies; and
- (business) entities of all sizes.



Question 2.2.20#

What entities are scoped out of the California climate laws?

The climate laws have the following specific scope exclusions.

- **SB-253 (GHG emissions)** scopes out the University of California, unless the Regents of the University of California choose to require compliance. [38532(g)]
- **SB-261 (climate risks)** scopes out insurance companies – defined as business entities subject to regulation by the Department of Insurance in California or that are in the business of insurance in any other state. Insurance companies are already required to report under the TCFD recommendations in accordance with the Climate Risk Disclosure Survey of the National Association of Insurance Commissioners. [38533(a)(4)]

Under the initial regulation, the following are also exempt from SB-253 and SB-261: [IR 96071(b)]

- nonprofit or charitable organizations that are tax-exempt under the Internal Revenue Code;
- companies whose only business in California comprises employee compensation or payroll expenses, including teleworking employees;
- companies whose only activity in California is wholesale electricity transactions that occur in interstate commerce; and
- federal, state and local government entities, and companies that are majority-owned (i.e. greater than 50%) by government entities.

The initial regulation also exempts companies that are subject to regulation by the Department of Insurance in California or that are in the business of insurance in any other state – i.e. extending the SB-261 exclusion to SB-253. This exemption applies for 2026 SB-253 reporting only. [IR 96071(b)(2), FSOR P-9]

At its public workshop on July 21, 2026, CARB staff noted that Department of Insurance reporting does not satisfy SB-253's assurance requirements and does not require scope 3 reporting. Staff proposed that, from 2027, insurance companies would report under SB-253 and may submit their Department of Insurance report supplemented with any additional information needed. This is a staff proposal and does not affect the 2026 exemption. [CARB 07/26]

- **AB-1305 (carbon offsets)** does not include any scope exclusions.

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Non-US companies

Non-US companies are not in scope based on the definitions in SB-253 and SB-261 (see Question 2.2.10) rather than by virtue of a specific scope exclusion. On whether a non-US parent may submit a consolidated report on behalf of its in-scope US subsidiaries, see Questions 2.2.50, 3.3.50 and 4.3.40. [IR 96072(a)(1), IR 96072(a)(10)]



Question 2.2.30#

What does 'does business in California' mean under SB-253 and SB-261?

Neither SB-253 (GHG emissions) nor SB-261 (climate risks) defines 'does business in California'. Under the initial regulation, the RTC is used to determine which companies do business in California. [IR 96072(a)(8)]

The RTC defines 'doing business in California' as actively engaging in any transaction for the purpose of financial gain within California and: [RTC 23101]

- being organized or commercially domiciled in California; or
- having California sales exceeding $757,070 (amount updated annually).

The RTC also treats a company as 'doing business in California' if its property and payroll-related criteria are met, but these are excluded from the definition of 'does business in California' under SB-253 and SB-261. Further, wholesale sales of electricity that occur in interstate commerce are excluded from a company's determination of its sales in California. Doing business in California is evaluated at the individual business entity level. [RTC 23101(b)(3-4), IR 96072(a)(8)]



Question 2.2.40#

How is revenue calculated under SB-253 and SB-261?

Neither SB-253 (GHG emissions) nor SB-261 (climate risks) specifies how revenue should be calculated.

The components of revenue

Under the initial regulation, the RTC is used to determine which companies do business in California (see Question 2.2.30). Also, in computing 'total annual revenue', revenue is defined as 'gross receipts' as set forth in the RTC, less applicable intercompany transactions within a combined reporting group, and evaluated at the individual business entity level. The revenue of a subsidiary is not attributed to its parent to determine 'total annual revenue' of the parent even if a unitary tax return is filed. [IR 96072(a)(8), 96072(a)(13), RTC 25120(f)(2), FSOR B-1]

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A company assesses whether it is in scope based on the lesser of its revenues from the two latest complete fiscal years. This means that if in one of those two years revenue is below the respective threshold for SB-253 or SB-261, the company is not in scope of the relevant law and does not need to report at the next applicable reporting deadline. [IR 96072(a)(5), 96072(a)(11)]

'Gross receipts' is broadly defined in the RTC as the gross amounts realized on the:

- sale or exchange of property;
- performance of services; or
- use of property or capital in a transaction that produces business income in which the income, gain or loss is recognized under the Internal Revenue Code.

The RTC also contains a number of items that are specifically excluded from the definition of gross receipts. [RTC 25120(f)(2)]

Group structures

The initial regulation further clarifies that each individual business entity must independently meet each of the three criteria to be in scope: being US-based, doing business in California and exceeding the applicable revenue threshold. The initial regulation makes clear that revenues of the individual business entities do not aggregate to the parent regardless of the tax return filing status. [IR 96072(a)(13)]

Under the RTC, a company files its California tax return either on a separate entity basis ('separate return') or as part of a unitary group ('unitary filing'). In a unitary filing, related entities that are engaged in a unitary business are required to aggregate their gross receipts (i.e. total revenue) for tax reporting purposes. However, CARB's initial regulation indicates the individual business entities within the combined reporting group perform their own respective revenue calculations and exclude intercompany transactions with other members of the combined reporting group in that calculation. In contrast, a company filing a separate return only reports its own gross receipts. [CCR tit.18 25106.5, IR 96072(a)(13)]

CARB's Addendum to the Final Statement of Reasons for Rulemaking provides the agency's responses to requests seeking additional clarity on the definitions of 'doing business in California' and 'total annual revenue'. In both cases, CARB reiterated that the applicable criteria are evaluated at the individual business entity level and are not "aggregated with or attributed to a parent company, regardless of unitary filing status". [FSOR B-1, C-1]

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Question 2.2.50#
Can a non-US parent be in the scope of the California climate laws?

SB-253 (GHG emissions) and SB-261 (climate risks)

No. Under the scoping, the reporting entity / covered entity must be a US company (see Question 2.2.10). Therefore, a non-US parent company itself would not fall in the scope of the California climate laws; only subsidiaries formed under US law are subject to the California climate laws. [FAQ #17]

FAQs published by CARB state that a non-US parent may submit a consolidated report that provides the required reporting on behalf of its in-scope US subsidiaries. However, under the initial regulation, a 'parent company' must be an entity formed under US law. Given the discrepancy between the FAQs and the initial regulation, companies may wish to consult their legal advisors in evaluating their reporting obligations (see Questions 3.3.50 and 4.3.40). [IR 96072(a)(1), IR 96072(a)(10), FAQ #14]

AB-1305 (carbon offsets)

Yes, non-US companies could be in scope because AB-1305 applies to any (business) entity that carries on a specified activity (see Question 2.2.10).

2.3 Fees

Question 2.3.10#
What is the fee structure for SB-253 and SB-261?

Reporting entities (SB-253) and covered entities (SB-261) are required to pay CARB an annual fee, even though the reporting frequency for SB-261 is biennial (see Question 4.2.10). The fee is designed to cover the full costs of administering and implementing the reporting programs and includes adjustments for contingencies and inflation. [38532(c)(2)(G), IR 96073]

In a public workshop hosted by CARB staff in August 2025, the staff shared the following illustrative fee amounts, but a final determination is pending: [CARB 08/25]

- $3,106 per reporting entity for SB-253 (GHG emissions); and
- $1,403 per covered entity for SB-261 (climate risks).

On or before December 10 of each year, CARB's Executive Officer will provide a written fee determination notice to each affected company of the amount due. Payment is due within 60 calendar days of the fee determination notice. [IR 96074(a), IR 96074(b)]

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Question 2.3.20#

Which entities are required to pay the fee?

The fee is required to be paid by each entity in a corporate group that has a reporting obligation. This means that each in-scope company is liable even if the reporting is done at the parent company level (see Questions 3.3.50 and 4.3.40). [IR 96074(a)]

Fee payments may be consolidated at the parent company level. Where a parent consolidates payment, a qualifying subsidiary need not submit a separate payment. [IR 96074(b)]

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3. SB-253 (GHG emissions)

Detailed contents

Item significantly updated in this edition #
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3.1 An overview#

SB-253 requires the following GHG emissions to be reported under the GHG Protocol.

Scope 1 and 2	2026	2027…	2030…
Reporting deadline	November 10[1]	November 10 (proposed)[2]…	
Assurance	Limited assurance with enforcement discretion	Limited assurance	Reasonable assurance
Note 1: The reporting period is fiscal year 2026 if the company's fiscal year-end is between January 1 and February 1; otherwise, the reporting period is fiscal year 2025. Note 2: CARB staff proposed November 10 as the recurring annual deadline for 2027 and beyond. [CARB 07/26]			
Scope 3	**2026**	**2027…**	**2030…**
Reporting deadline	N/A	TBD…	
Assurance	N/A	N/A	Potentially limited assurance

Companies may report at a consolidated level, even if the consolidation includes subsidiaries that are not in the scope of SB-253.

The presentation format is flexible in 2026. A company may submit an existing report with scope 1 and 2 emissions data already reported to other programs or voluntary initiatives, or report using the draft template published by CARB.

Although penalties apply under the law, in the first year of reporting (i.e. 2026) CARB will not take enforcement action for incomplete reporting against companies that:

- didn't possess the information related to scopes 1 and 2 GHG emissions, or
- weren'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 their prior fiscal year. This relief is codified in the initial regulation. A company that was not collecting data when the enforcement notice was issued may instead submit a statement of non-reporting.

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3.2 Reporting requirements

Question 3.2.10#
What is the frequency of SB-253 reporting and the reporting deadlines?

SB-253 requires the annual disclosure of GHG emissions. The reporting of scopes 1 and 2 emissions begins in 2026 with scope 3 following the next year. [38532(c)(2)(A)(i)]

SB-253 does not specify a date for reporting in 2026 but instead delegates the decision to CARB as part of its development of regulations (see Question 1.2.20). November 10, 2026 is specified in the initial regulation for first-year SB-253 reporting. CARB staff have also proposed November 10 as the recurring SB-253 reporting deadline for 2027 and beyond. This is a staff proposal and does not affect 2026 reporting requirements. [IR 96076(a), CARB 07/26]

Reporting scope 3 GHG emissions will begin one year later, in 2027. The exact reporting deadline in the first and subsequent years will be determined by CARB in its subsequent regulation (see Questions 1.2.20 and 1.2.50). [38532(c)(2)(A)(i)(II), FAQ #3]

The following table summarizes the reporting deadlines.

	2026	2027	2028
Scopes 1 and 2	November 10	November 10 (proposed)…	
Scope 3	N/A	TBD (first year)	TBD (recurring)…

In setting future reporting dates, CARB is required to consider both the typical period for receiving emissions data (e.g. from suppliers) and the capacity for independent assurance engagements to be performed. [38532(c)(2)(A)(vi)]

Question 3.2.20
What period is covered in a company's first report for SB-253?

Under the initial regulation, companies with fiscal year-ends between January 1 and February 1, 2026, both dates included, are required to report data for the 2026 fiscal year in their first SB-253 reports (due November 10, 2026). Other companies will report data for their 2025 fiscal years. [IR 96076(c)]

This means the following, for example.

Fiscal year-end	Reporting period
December 31	December 31, 2025
January 31	January 31, 2026

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Fiscal year-end	Reporting period
March 31	March 31, 2025
June 30	June 30, 2025
September 30	September 30, 2025

If the data is available, a company may report emissions for its most recent fiscal year, even if its fiscal year ends after February 1. For example, a company with a March 31 fiscal year-end is not precluded from reporting for fiscal year ended March 31, 2026. [IR 96076(c)(2)]



Question 3.2.25**

What formats are acceptable for a company's first report under SB-253?

For the 2026 reporting cycle, a company may use any of the following formats: [GUD]

- an existing annual report that includes scopes 1 and 2 GHG emissions;
- existing scopes 1 and 2 data reported to other programs or voluntary initiatives; or
- CARB's draft template, the use of which is voluntary for 2026.

These formats apply to the 2026 reporting cycle only. Reporting formats for 2027 and later years are under development.

CARB encourages companies to provide additional details in the first year of reporting, where available, to help provide important context. Such details can include, but are not limited to, descriptions of methodologies, emission factors, organizational boundaries, and any assumptions used. [GUD]



Question 3.2.30

What assurance is required for SB-253?

Assurance over GHG emissions is graduated, as illustrated in the following table. [38532(c)(2)(F)(ii)]

	2026	2027…	2030…
Scopes 1 and 2	Limited assurance with enforcement discretion	Limited assurance	Reasonable assurance
Scope 3	N/A	N/A	Potentially limited assurance

For 2026 reporting, CARB will exercise 'enforcement discretion', allowing companies to submit scopes 1 and 2 emissions for their first reporting period

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based on information they already have or were collecting when the December 2024 enforcement notice was issued, whether or not the data received limited assurance. See Question 3.4.20. [FAQ #20, GUD]

CARB is required to determine by January 1, 2027 whether scope 3 emissions should be assured, in which case any requirement for limited assurance would begin in 2030. CARB is expected to address this in its subsequent regulation (see Questions 1.3.10, 1.2.20 and 1.2.50). [38532(c)(2)(F)(iii), FAQ #3]

Assurance engagements are required to be performed under professional standards and applicable legal and regulatory requirements. However, the definitions of limited assurance and reasonable assurance are not anchored to specific standards. [38532(c)(2)(F)(iv)]

AICPA Standards are examples of professional standards that assurance engagements may follow, with the following meanings of limited and reasonable assurance.

- Limited assurance may be referred to as a 'review' and includes: [AT-C 210]
  - focusing on areas of increased risk;
  - inquiring to obtain an understanding of processes and controls; and
  - obtaining evidence primarily through inquiry and analytical procedures.

  The practitioner's report includes a conclusion about whether, based on the review, any material modifications should be made to the subject matter (e.g. GHG emissions) to be in accordance with the criteria (e.g. specified GHG Protocol Standards). The report states that a review is substantially less in extent than a reasonable assurance engagement.
- Reasonable assurance may be referred to as an 'audit' or an 'examination' and includes: [AT-C 205]
  - identifying risks of material misstatement, including the degree of measurement uncertainty, and designing procedures to respond;
  - obtaining an understanding of processes and controls, evaluating their design, and determining whether they have been implemented;
  - obtaining evidence through a combination of inquiry, analytical procedures and substantive testing; and
  - testing information more extensively.

  The practitioner's report includes an opinion about whether the subject matter is in accordance with the criteria in all material respects.

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Question 3.2.40
What are the requirements for assurance providers in SB-253?

SB-253 requires the assurance provider to be an independent third party, and to have: [38532(c)(2)(F)(iv)]

- significant experience in measuring, analyzing, reporting or attesting to GHG emissions;
- independence with respect to the reporting entity, and any of the reporting entity's affiliates for which it is providing the assurance report; and
- sufficient competence and capabilities to perform engagements under professional standards and applicable legal and regulatory requirements.

CARB is required to review the qualifications for third-party assurance providers during 2029, and to implement any updates by January 1, 2030. [38532(c)(2)(F)(iv)]

Question 3.2.50#
How are reports submitted under SB-253?

Reports prepared under SB-253 are submitted to: [38532(c)(1)]

- CARB; or
- a specified emissions reporting organization if one is contracted in future years (see Question 1.2.30).

For 2026 reporting, CARB has made available a voluntary online intake platform for submitting scopes 1 and 2 emissions data and fee contact information. A company may also choose to submit its report to CARB by email. For the formats acceptable for the first-year report, see Question 3.2.25. [GUD]

The report will be made publicly available on CARB's website, or a digital platform accessible to the public, within 90 days of submission. [38532(d)(2), 38532(e)(1)(A)]

3.3 Report contents

Question 3.3.10
What disclosures are required by SB-253?

SB-253 requires disclosure of scopes 1, 2 and 3 GHG emissions. Scope 3 emissions reporting is not required for 2026 reporting. [38532(c)(1), IR 96076(a)]

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The following definitions are relevant to SB-253 reporting. Read more in our Handbook, 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. [38532(b)(3)]
Scope 2	Indirect GHG emissions from consumed electricity, steam, heating, or cooling purchased or acquired by a company, regardless of location. [38532(b)(4)]
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. [38532(b)(5)]

In October 2025, CARB published a draft template for reporting scopes 1 and 2 emissions in the first year of reporting. The draft template is available for voluntary use in 2026. It 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. [CARB-253, FAQ #19]

KPMG submitted a comment letter that focused on our perspective as an assurance provider and recommended two types of changes to the draft template.

- Changes we believe are necessary to facilitate the assurance process and to convey essential information about the assurance engagement:
  - requiring that the full assurance report be attached or otherwise provided;
  - not requiring the disclosure of an emissions intensity metric;
  - not requiring disclosures related to immaterial items;
  - requiring the disclosures related to uncertainties and data quality be reassessed; and
  - requiring disclosure of the basis of presentation.
- Changes we recommend considering because, in our experience, certain of the proposed requirements in the draft template go beyond what is currently reported in a typical statement of GHG emissions subject to assurance. Such requirements may entail additional effort on the part of companies and assurance providers without commensurate benefit to the intended users of the assurance report.



Question 3.3.20

What is the basis for measuring and reporting GHG emissions?

SB-253 requires companies to measure and report GHG emissions in accordance with the GHG Protocol, including the: [38532(c)(2)(A)(ii)]

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- Corporate Accounting and Reporting Standard
- GHG Protocol Scope 2 Guidance
- Corporate Value Chain (Scope 3) Accounting and Reporting Standard
- Technical Guidance for Calculating Scope 3 Emissions.

GHG emissions reporting under the GHG Protocol is explained in our Handbook, GHG emissions reporting.

In comments during a public workshop in May 2025, CARB staff clarified that to comply with the APA, it cannot adopt regulations that merely reference external standards – particularly those using non-mandatory language such as 'may' or 'consider' (e.g. GHG Protocol). Instead, CARB will incorporate these standards directly into the regulatory text to meet the APA's 'clarity' standard (see Questions 1.3.10 and 1.3.20). [CARB 05/25]

Therefore, while companies may refer to these external standards when drafting disclosures, they will ultimately be required to follow the regulatory text. While this raises questions about how companies prepare to comply with the law, the following points were made in the workshop. [CARB 05/25]

- CARB staff does not intend to deviate from the GHG Protocol and is more focused on introducing flexibility (e.g. by allowing ESRS measurements).
- CARB understands the practical reality of reporting before the regulations are in place and is simply requesting good faith efforts in the first year (see Questions 3.4.10 and 3.4.20).

In October 2025, CARB published a draft template for reporting scopes 1 and 2 emissions that is available for voluntary use in 2026 (see Questions 3.3.10 and 3.2.25).

Question 3.3.30

Can the emissions reporting (organizational) boundary differ from the reporting entity's boundary?

Yes. SB-253 requires the 'reporting entity' to report GHG emissions (see Question 2.2.10) – i.e. it is not the emissions related to California or even the US. The 'reporting entity' has flexibility to choose the organizational boundary under the GHG Protocol. [38532(c)(1)]

In applying the GHG Protocol to the following structure, US Co will apply its selected organizational boundary to report emissions for all operations. It will *not* simply report California emissions for its headquarters and factory in California.



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To learn more about the organizational boundary under the GHG Protocol, read chapter 3 of our Handbook, GHG emissions reporting.



Question 3.3.40

Can a company use an alternative basis for measuring GHG emissions?

SB-253 requires companies to report in accordance with the GHG Protocol and does not provide any alternatives. [38532(c)(2)(A)(ii)]

Companies are permitted to leverage other reporting as long as the report satisfies all of the SB-253 requirements. However, this relief may not be as permissive as it appears. For companies reporting (or preparing to report) under alternative frameworks, such as IFRS® Sustainability Disclosure Standards or ESRS, care is required in assessing any differences that might be material in their circumstances.

CARB received questions on this topic and it may decide to address the issue in subsequent regulation (see Question 1.2.50). Further, this issue is subject to the overall approach that CARB will need to take in developing regulations that pass APA standards (see Question 1.3.20). [CARB 08/25]



Question 3.3.50#

Is any reporting relief available if GHG emissions reporting is available at a higher level in a group?

Yes, reporting is permitted at the consolidated parent company level, in which case in-scope subsidiaries are not required to report separately. [38532(c)(2)(A)(iii)]

Under the initial regulation, a parent company may submit a consolidated report on behalf of its subsidiaries that are reporting entities. A ‘parent company’ is a business entity that has an ownership interest in, or control of, another business entity by direct corporate association and a subsidiary is defined by reference to the ownership and control criteria in the CCR. Generally, one entity is treated as controlling another when it has more than 50% ownership or control. The criteria also cover relationships through a common parent or a chain of controlled entities, as well as specific relationships involving certain electricity-sector entities. [IR 96072(a)(10), IR 96072(a)(16), CCR tit.17 95833(a)(1-3), CCR tit.17 95833(a)(5)]

US vs non-US parent

Under the initial regulation, a ‘business entity’ is one formed under the laws of California, another US state or the District of Columbia, or an act of Congress. Read together, the definitions of a ‘parent company’ and ‘business entity’ indicate that the parent submitting a consolidated report must be a US entity. FAQs published by CARB state that a non-US parent may submit a consolidated report that provides the required reporting on behalf of its in-scope US subsidiaries. Given the discrepancy between the FAQs and the initial

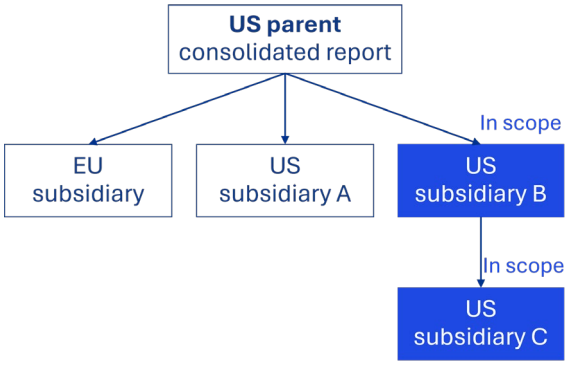
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regulation, companies may wish to consult their legal advisors in evaluating their reporting obligations. [IR 96076(a), IR 96072(a)(1), IR 96072(a)(10), FAQ #14]

Composition of the consolidation

A consolidated report can include disclosures related to subsidiaries not subject to SB-253 as long as the consolidated report meets all of the relevant reporting requirements for the in-scope US companies. This issue was addressed in comments by CARB staff in a public workshop in November 2025 and the agency response to the question is included in the FSOR. Additionally, the FAQs by CARB state that the consolidated parent report may include disclosures from subsidiaries that are not subject to the requirements of SB-253 and/or SB-261 (climate risks). [FAQ #16, CARB 11/25, FSOR F-2]

In the following diagram, the US parent prepares a consolidated report that incorporates two US subsidiaries in the scope of SB-253 (B and C) and two subsidiaries that are not in the scope (EU subsidiary and US subsidiary A). The consolidated report is used to satisfy the requirements of SB-253 in the first year of reporting.



3.4 Penalties and enforcement relief

Question 3.4.10
What are the penalties for noncompliance with SB-253?

The maximum administrative penalty authorized for noncompliance with SB-253 – for non-filing, late filing or other failure to meet the requirements – is $500,000 in a reporting year. [38532(f)(2)(A)]

Recognizing that regulations have been delayed and in any event companies may need time to implement new data collection processes, CARB will not take enforcement action for incomplete reporting in the first year of reporting, as long as companies demonstrate good faith efforts (see Question 3.4.20). [CARB-EN, FAQ #19]

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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. Penalties assessed on scope 3 reporting between 2027 and 2030 will only occur for non-filing. [38532(f)(2)(B-C)]

Penalties will be imposed and recovered by CARB in administrative hearings. In imposing penalties, it will consider all relevant circumstances, including: [38532(f)(2)(A)(i-ii)]

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



Question 3.4.20#

What is the effect of CARB's SB-253 enforcement notice?

On December 5, 2024, CARB released a notice that it will not take enforcement action for incomplete reporting in the first year of reporting against companies that:

- didn't possess the information related to scopes 1 and 2 GHG emissions, or
- weren'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 their prior fiscal year. [CARB-EN]

The initial regulation codifies this first-year enforcement relief. For the November 10, 2026 report, a company may submit: [IR 96076(b), CARB-EN]

- scopes 1 and 2 emissions information that it already possessed or was collecting on or before December 5, 2024; or
- if it was not collecting and did not plan to collect that information when the enforcement notice was issued, a statement of non-reporting on company letterhead.

The statement may be submitted through CARB's voluntary intake platform or by email before November 10, 2026. [GUD]

The first-year enforcement discretion also applies where limited assurance has not been obtained. For the related assurance requirements, see Question 3.2.30. [FAQ #20, GUD]

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4. SB-261 (climate risks)

Detailed contents

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4.2.20 What period is covered in a company's first report for SB-261?

4.2.30 Is assurance required?

4.2.40 How are reports submitted under SB-261?

4.3 Report contents

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4.3.10 How are climate-related financial risks defined for SB-261 reporting?

4.3.20 What disclosures are required by SB-261?

4.3.30 Can a company use an alternative basis for reporting climate risks?

4.3.40 Is any reporting relief available if climate risks reporting is available at a higher level in a group?

4.4 Penalties and enforcement relief

Questions

4.4.10 What are the penalties for noncompliance with SB-261?

4.4.20 What if a company is unable to fully comply with the disclosure requirements?

4.4.30 What enforcement relief is available for SB-261?

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4.1 An overview

SB-261 requires companies to report on climate-related financial risks and mitigation every two years, with the first report due on or before January 1, 2026. However, CARB is not currently enforcing compliance with SB-261 following an injunction related to the law as part of ongoing litigation.

Absent the enforcement stay, the following are reported under SB-261.

	Risks	Mitigation
Disclosures	Climate-related financial risks: the material risk of harm to a company's immediate and long-term financial outcomes due to physical risks and transition risks.	Measures adopted to reduce and adapt to such risks.
Framework	• TCFD • IFRS Sustainability Disclosure Standards • Other similar frameworks.	None specified. In our experience, mitigation efforts are typically disclosed in TCFD reports and are required under IFRS Sustainability Disclosure Standards.
Relief in the law	To the extent a company is unable to fully comply with all required disclosures, it discloses additional information about its compliance efforts.	N/A
CARB enforcement relief	CARB will consider good faith efforts and accept reports that companies prepare to the best of their knowledge and ability and using the best available data.	

Companies may report at a consolidated level, even if:

- the parent is a non-US company (but see Question 3.3.50 regarding the discrepancy between CARB's FAQs and the initial regulation); and/or
- the consolidation includes subsidiaries that are not in the scope of SB-261.

To facilitate reporting – currently on a voluntary basis – CARB has opened a public docket. Reports submitted to CARB are available on its website.

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4.2 Reporting requirements

Question 4.2.10
What is the frequency of SB-261 reporting and the reporting deadlines?

SB-261 requires companies to report on climate-related financial risks and mitigation every two years, with the first report due on or before January 1, 2026. [38533(b)(1)(A)]

However, in November 2025 the Ninth Circuit Court of Appeals issued an injunction halting enforcement of SB-261 while an appeal is pending as part of ongoing litigation related to SB-253 and SB-261. In response, CARB issued an Enforcement Advisory that it will not enforce the January 1, 2026 deadline for SB-261 reporting while an appeal is pending in the court (see Question 1.2.10). Once the appeal is resolved, CARB will reconsider an appropriate reporting date. [CARB-EA]

In the meantime, CARB is accepting reports prepared on a voluntary basis (see Question 4.2.40).

Question 4.2.20
What period is covered in a company's first report for SB-261?

SB-261 does not specify the reporting period covered in a company's first reporting.

CARB has confirmed that the company's first climate risk report – due on a voluntary basis by January 1, 2026 (see Question 4.2.10) – may cover either fiscal year 2024 or fiscal year 2025 depending on what is reasonable for the company. [FAQ #23]

Question 4.2.30
Is assurance required?

No. SB-261 does not impose any assurance requirements.

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Question 4.2.40
How are reports submitted under SB-261?

SB-261 requires companies to make a copy of their report publicly available on their website, but includes no further information about reporting to CARB. [38533(c)(1)]

To facilitate reporting – currently on a voluntary basis (see Question 4.2.10) – CARB has opened a public docket for the following to be uploaded: [Docket]

- a company statement on official letterhead; and
- the URL of the report on the company's website.

For entities submitting a consolidated report (see Question 4.3.40), the statement should include a list of all in-scope subsidiaries included. [Docket]

4.3 Report contents



Question 4.3.10
How are climate-related financial risks defined for SB-261 reporting?

SB-261 requires disclosure of climate-related financial risks, which are defined as the material risk of harm to a company's immediate and long-term financial outcomes due to physical risks and transition risks. Examples of climate-related financial risk include, but are not limited to, risks to corporate operations, provision of goods and services, supply chains, employee health and safety, capital and financial investments, and shareholder value. [38533(a)(2)]

SB-261 allows but does not mandate the disclosure of information that falls outside of the above-mentioned definition. [FAQ #23]

The 'physical risks' and 'transition risks' noted above are the two categories of climate risk as defined by the TCFD. [TCFD p13]

- **Physical risks** arise from the physical effects of climate-related changes such as hurricanes, flash floods, wildfires, changes in weather patterns and rise in sea level.
- **Transition risks** refer to the effects on a company resulting from significant policy, legal, technological, and market changes aimed at addressing climate change mitigation and adaptation requirements.

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Question 4.3.20
What disclosures are required by SB-261?

SB-261 requires disclosure of:

- climate-related financial risks – defined as material risk of harm to immediate and long-term financial outcomes due to physical and transition risks (see Question 4.3.10); and [38533(a)(2), 38533(b)(1)(A)(i)]
- measures adopted to reduce and adapt to such risks. [38533(b)(1)(A)(ii)]

Reports submitted to CARB on a voluntary basis (see Question 4.2.10) are available on CARB's website, Climate-Related Financial Risk Reports (SB 261) Docket.

Climate-related financial risks

Subject to relief (see Questions 4.4.20 and 4.4.30), the first requirement is achieved by requiring companies to report in accordance with either: [38533(b)(1)(A)(i)]

- the recommended framework and disclosures contained in the Final Report of Recommendations of the TCFD (June 2017); or
- the framework of any successor body – i.e. the IFRS Foundation, which governs the activities of the ISSB and has taken over the TCFD's monitoring activities.

In November 2025, CARB finalized its Climate Related Financial Risk Disclosures: Checklist. The checklist, designed to be used as a starting point for companies complying with SB-261, comprises streamlined disclosures based on (but not as extensive as) the 2017 recommendations of the TCFD – including governance, strategy, risk management, and metrics and targets. [CARB-261]

- **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 climate-related financial risk report may exclude scopes 1 and 2 GHG emissions. In addition, resilience disclosures (part of strategy) need not include a formal qualitative scenario-based assessment. To the extent a company is not able to provide other required disclosures, it may disclose the reasons and its plans for future disclosures. [CARB-261]

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Further, the report needs to include a statement about which reporting framework has been applied and which recommendations and disclosures have been followed. [CARB-261]

Measures adopted to reduce and adapt to risks

Although SB-261 separates the mitigation-related disclosures from the risk disclosures, in our experience, mitigation efforts are typically disclosed in TCFD reports and are required under IFRS Sustainability Disclosure Standards. Therefore, the most practical effect of separating the requirements may be the different disclosure relief that applies (see section 4.4).



Question 4.3.30

Can a company use an alternative basis for reporting climate risks?

Yes. As an alternative to the TCFD, a company may do equivalent reporting in accordance with any of the following. [38533(b)(3)(A-B)]

- **Mandatory frameworks.** Laws, regulations, or listing requirements issued by national governments, regulated exchanges, or governmental entities, including those of the US, as long as these incorporate disclosure requirements consistent with the TCFD recommendations or IFRS Sustainability Disclosure Standards; or
- **Voluntary frameworks.** Any framework that meets the requirements of the TCFD recommendations or IFRS Sustainability Disclosure Standards.

In both cases, the alternative needs to satisfy the climate-related financial risk disclosures in CARB's checklist (see Question 4.3.20). Because the ISSB™ climate standard (IFRS S2) incorporates the TCFD recommendations, they are in effect equivalent for purposes of this requirement.

The following are examples of alternative frameworks:

- ESRS
- GRI Standards
- SASB Standards.



Question 4.3.40

Is any reporting relief available if climate risks reporting is available at a higher level in a group?

Yes, reporting is permitted at the consolidated parent company level, in which case in-scope subsidiaries are not required to report separately. [38533(b)(2)]

For a voluntary submission through CARB's public docket, the company statement should identify the in-scope subsidiaries included in the consolidated report. [Docket]

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See further discussion in Question 3.3.50 (SB-253) that applies equally to SB-261 reporting.

4.4 Penalties and enforcement relief

Question 4.4.10
What are the penalties for noncompliance with SB-261?

The maximum administrative penalty authorized for noncompliance with SB-261 – for failing to make the report available on the company's website or publishing an inadequate or insufficient report – is $50,000 in a reporting year. However, CARB is not currently enforcing the law (see Question 4.4.30). [38533(f)(2)]

Penalties will be imposed and recovered by CARB in administrative hearings. In imposing penalties, it will consider all relevant circumstances, including: [38533(f)(2)(A-B)]

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

Question 4.4.20
What if a company is unable to fully comply with the disclosure requirements?

SB-261 provides relief for companies that are unable to fully comply with all required disclosures regarding climate-related financial risks. [38533(b)(1)(B)]

In such cases, the company is required to:

- make the recommended disclosures to the best of its ability;
- provide a detailed explanation of any reporting gaps; and
- describe the steps it will take to prepare complete disclosures.

This relief does not extend to the SB-261 requirement to disclose the measures adopted to reduce and adapt to climate-related financial risks. This disclosure remains mandatory, regardless of any challenges the company may face in meeting the other requirements. However, the penalties for noncompliance consider good faith measures to comply (see Question 4.4.10).

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Question 4.4.30
What enforcement relief is available for SB-261?

SB-261 is not currently being enforced and CARB issued an Enforcement Advisory that it will not enforce the January 1, 2026 deadline for SB-261 reporting while an appeal is pending in the court (see Question 4.2.10). Apart from this Enforcement Advisory and the relief in SB-261 for risk (not mitigation) disclosures (see Question 4.4.20), there is no enforcement notice similar to that published for SB-253 regarding CARB's intent to not enforce penalties for incomplete reporting in the first year of reporting (see Question 3.4.20).

However, in a public workshop in August 2025, CARB staff indicated that in the first year of reporting they plan to consider good faith efforts and accept reports that companies prepare to the best of their knowledge and ability and using the best available data. [CARB 08/25]

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5. AB-1305 (carbon offsets)

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5.1 An overview

The following summarizes the disclosures required at least annually under AB-1305. The first reporting date was January 1, 2024.

Scoping	Disclosures
Business entities marketing or selling voluntary carbon offsets in California.	Details of the carbon offset project, accountability measures if the project is not completed or does not meet projections, relevant data and calculation methods to independently reproduce and verify the emissions reduction credits.
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.	Information about each project or program – e.g. name of business entity selling the offset, offset project type, whether there is independent third-party verification.
Entities operating in California that make certain claims within the state – e.g. achievement of net-zero emissions, significant reductions in GHG emissions.	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.

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5.2 Scoping

Question 5.2.10
How are the different parts of AB-1305 connected?

As outlined in Question 2.2.10, the scope of AB-1305 covers three types of activities that operate independently – i.e. a company could be in one or more of the 'parts' of the law. Each part has its own disclosure requirements.

Part 1 [44475]	Business entities marketing or selling VCOs within California.
Part 2 [44475.1(g)]	Entities operating in California that purchase or use VCOs sold within the state and make certain claims – e.g. achievement of net-zero emissions.
Part 3 [44475.2(b)]	Entities operating in California that make certain claims within the state – e.g. achievement of net-zero emissions, significant reductions in GHG emissions.

Parts 2 and 3 both refer to making certain claims (see Question 5.2.40) with the key difference being that Part 2 has the additional requirement that the entity is purchasing or using VCOs sold within the state. In the rest of this chapter, we refer to Parts 1, 2 and 3 separately.

Question 5.2.20
Does AB-1305 apply only at the entity level?

It depends on which part of the law is being applied (see Question 5.2.10).

Part 1 (marketing or selling voluntary carbon offsets)

Yes, Part 1 applies to a 'business entity' – i.e. it applies at the entity level. [44475]

Parts 2 and 3 (making claims)

No, Part 2 applies to any of the following: [44475.1]

- the entity;
- a related entity; or
- a product.

No, Part 3 applies to any of the following: [44475.2]

- the entity;
- a related or affiliated entity; or
- a product.

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Although Parts 2 and 3 have a slight difference in wording ('affiliated' entity in Part 3), the key point is that it is necessary to take a broader view as to whether certain claims are being made.

Further, although the law refers to a product while not mentioning a service, Part 3 includes a catchall of 'similar claims' that may be relevant (see Question 5.2.40).



Question 5.2.30
Is 'within the state' defined in AB-1305?

No. AB-1305 does not provide a definition of what it means for a claim to be made 'within the state' (California), to operate 'within the state', or to purchase or sell a VCO 'within the state'.

Based on discussions, a claim may be included in the population that AB-1305 is intended to address if it:

- is made on a website, in an email, on cable or a streaming service; and
- is accessible by an individual that happens to be within the state of California.

Further, what it means to purchase or use a VCO within the state is not specified. For example, an entity that operates in California might purchase a VCO that is sold by an entity that is in another state or country.



Question 5.2.40
Are the types of 'claims' in Parts 2 and 3 defined?

Yes, but only in general terms; no granular definitions are provided. The three types of claims discussed below are derived from the general terms used in the law. [44475.1, 44475.2]

Based on the discussion of the types of claims that follows, if a company describes GHG targets, progress (e.g. reductions) at any level of the entity, its products or services, or other related affiliates and parties, it should do a careful analysis before concluding that the Part 2 and Part 3 disclosures do not apply.

California has incorporated the Guides for the Use of Environmental Claims (published by the Federal Trade Commission) into state law (as part of the BPC) to combat deceptive green marketing practices. While these Green Guides are more broadly applicable, they could be a relevant resource to begin evaluating what would constitute a claim. [BPC 17580.5, Green Guides]

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KPMG's report, The Challenge of Greenwashing: An International Regulatory Overview, explains some of the risks associated with claims and broader regulations across the globe.

The achievement of 'net zero' or 'carbon neutral'

These two terms are not defined and there is no standard single definition of what either means. For further discussion, see Question 9A.3.50 in KPMG Handbook, GHG emissions reporting.

- Carbon neutral may be used to mean 'carbon', CO_2 or a mix of GHGs in addition to CO_2.
- Net zero could mean a combination of real reductions of emissions with hard-to-abate activities being offset with carbon credits.

No net carbon dioxide or GHGs added to the climate

AB-1305 does not provide examples of such claims. Careful evaluation of the context in which information is presented will be important to determining if the disclosure requirements are triggered.

A significant reduction to carbon dioxide or GHGs

There is no guidance on whether the reduction is described in terms of absolute emissions, intensity (e.g. a decrease in kg CO_2e/$Revenue), relative to a base year or a trend over time.

There is no specified threshold for 'significant reductions', which could be interpreted relative to the entity's GHG footprint, industry, targets and goals, or other emissions reduction benchmark. A reduction would not necessarily need to have a descriptor of 'significant' for the implication to be that the entity believed it was, in fact, significant from the perspective of the reader.

Similar claims

Part 3 refers to 'similar claims', indicating an intent for the substance of the claims to be considered rather than the precise term used. [44475.2]



Question 5.2.50

If an entity makes claims and purchases a VCO, must the VCO be *used* in conjunction with the claim?

No. A VCO that is purchased, but not retired, would not be considered 'used' in the context of a GHG inventory. However, Part 2 refers to the VCOs being purchased *or* used, and therefore the related disclosures are required. [44475.1]

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Question 5.2.60
How are VCOs defined?

A VCO is any product sold or marketed in California that claims to be:

- a GHG emissions offset,
- a voluntary emissions reduction,
- a retail offset, or
- any like term,

that connotes that the product represents or corresponds to a reduction in the amount of GHGs present in the atmosphere or that prevents the emission of GHGs into the atmosphere that would have otherwise been emitted. [44475(d)(3)(A)]

A VCO does not include products that represent or correspond to legal or regulatory mandates for either: [44475(d)(3)(B)]

- a reduction of the amount of GHGs present in the atmosphere; or
- the prevention of the emissions of GHGs into the atmosphere.

Therefore, compliance-related carbon offsets under California's Cap-and-Trade Program are not VCOs.

Question 5.2.70
Do RECs, or similar types of certificates and credits, count as VCOs under AB-1305?

Based on discussions, it appears that the use of RECs and similar types of certificates and credits does not count as VCOs under Parts 1 and 2 of AB-1305, which apply to specific instruments (see Question 5.2.60).

Question 10A.3.40 in KPMG Handbook, GHG emissions reporting, explains the difference between RECs and carbon credits (e.g. offset credits or carbon offsets). Further, an opinion published in the official reports of California's Office of the Attorney General concluded that a REC is not the same as a VCO, which is consistent with our Handbook. [AG opinion]

However, even if a REC is not the same as a VCO, its use is nonetheless often tied to claims of achieving progress on emissions reductions in the context of scope 2 market-based emissions. In that case, the use of RECs, or similar types of certificates and credits, may cause the company to be in the scope of Part 3 of AB-1305 depending on its specific facts and circumstances (see Questions 5.2.10 and 5.2.20).

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Question 5.2.80
Are credits under the Low Carbon Fuel Standard in the scope of AB-1305?

Based on discussions, it appears that credits under California's Low Carbon Fuel Standard (LCFS) are not in the scope of Parts 1 and 2 of AB-1305. This is because there is some legal mandate related to the LCFS that precludes the program from coming under the scope of AB-1305 (see Question 5.2.60).

However, the use of LCFS credits may cause a company to be in the scope of Part 3 of AB-1305 depending on its specific facts and circumstances (see Questions 5.2.10 and 5.2.20).

5.3 Reporting requirements

Question 5.3.10
What is the frequency of AB-1305 reporting and the reporting deadline?

AB-1305 requires companies to report at least annually starting on or before January 1, 2024. [44475(a), 44475.1(a), 44475.2(a)]

Question 5.3.20
What period is covered in a company's first report for AB-1305?

AB-1305 does not specify the reporting period covered in a company's reporting. In our experience, companies report based on their prior fiscal year.

Question 5.3.30
Is assurance required?

No. AB-1305 does not impose any assurance requirements, but it does require disclosure of whether third-party verification has been received (see Question 5.4.10).

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Question 5.3.40
What is the mechanism for reporting under AB-1305?

A company makes its disclosures on its website. [44475, 44475.1, 44475.2]

AB-1305 does not specify other aspects of where and how the information should be disclosed. For example, one entity may disclose the name of the offset project methodology, while another entity may disclose a hyperlink to the detailed methodology document.

In practice, we have observed that separately presented disclosures have been given various titles such as:

- Voluntary Carbon Market Disclosures Act
- AB-1305 disclosures
- California AB-1305 reporting.

Additionally, in lieu of the disclosures being made directly on the company's website, they could be published within a sustainability report describing the required information. In that case, we recommend labeling the disclosures so they can easily be found.

5.4 Report contents



Question 5.4.10
What disclosures are required under AB-1305?

In general, the disclosures fall into three categories relevant for different purposes.

- **Sellers of VCOs (Part 1).** These disclosures require a description of the elements of the project or program that resulted in the generation of the VCO – including geography, methodologies, 'durability' measures and whether there is independent expert or third-party validation or verification of the project attributes. Each of these attributes may contribute to the reader's understanding of the quality and integrity of the VCO. [44475]
- **Entities making claims + purchasing and/or using VCOs (Part 2).** These disclosures are essentially the mirror image or buyers' perspective of the information a seller of VCOs would provide – i.e. where the project is located, what methodology was used, and whether validation and/or verification was done. Each attribute may contribute to the reader's understanding of the quality and integrity of the VCO. [44475.1]
- **Entities making claims (Part 3)**. These disclosures are focused on descriptions of the nature of the claim, progress made, and the data that

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supports either or both the achievement of the claim or progress made against it. [44475.2]

- Assurance of GHG emissions data is not required, but whether 'verification' was obtained for that data is disclosed.
- Similarly, methodology and third-party involvement in substantiating if the target is science-based, for example, could also be relevant to the disclosure.

Verification and/or validation

For both sellers and purchasers of VCOs, the disclosure asks for 'whether' verification and/or validation has been obtained. It does not require information on when that verification was obtained.

This distinction matters because a carbon offset project undergoes 'validation' during the design stage and 'verification' may be several years later. Verification assesses whether the project continues to reduce or remove the same metric tonnes of CO_2e of GHGs as initially intended, considering measures such as 'durability'.

For a better understanding of the process by which VCOs are derived from a GHG project and considerations around their quality, see section 10A.3 of KPMG Handbook, GHG emissions reporting. This provides insight into how users of the AB-1305 disclosures may use that information to judge the quality of a company's claims or GHG reduction efforts.

5.5 Penalties and enforcement relief

Question 5.5.10
What are the penalties for noncompliance with AB-1305?

The maximum civil penalty authorized for noncompliance with AB-1305 – for failing to make information available, or making inaccurate information available, on the company's website – is $2,500 per day for each violation, up to $500,000. [44475.3(a)]

Penalties are 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. [44475.3(a)]

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Question 5.5.20
Is enforcement relief available for AB-1305?

No. Unlike SB-253 (GHG emissions) and SB-261 (climate risks), no enforcement relief notice or other form of enforcement relief has been published for AB-1305 disclosures.

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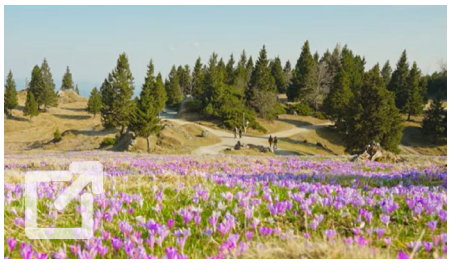
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- Going concern
- IFRS® compared to US GAAP
- Impairment of nonfinancial assets
- Income taxes
- Internal control over financial reporting
- Inventory
- Investment companies
- Investments
- Leases
- Long-duration contracts
- Reference rate reform
- Research and development
- Revenue recognition
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