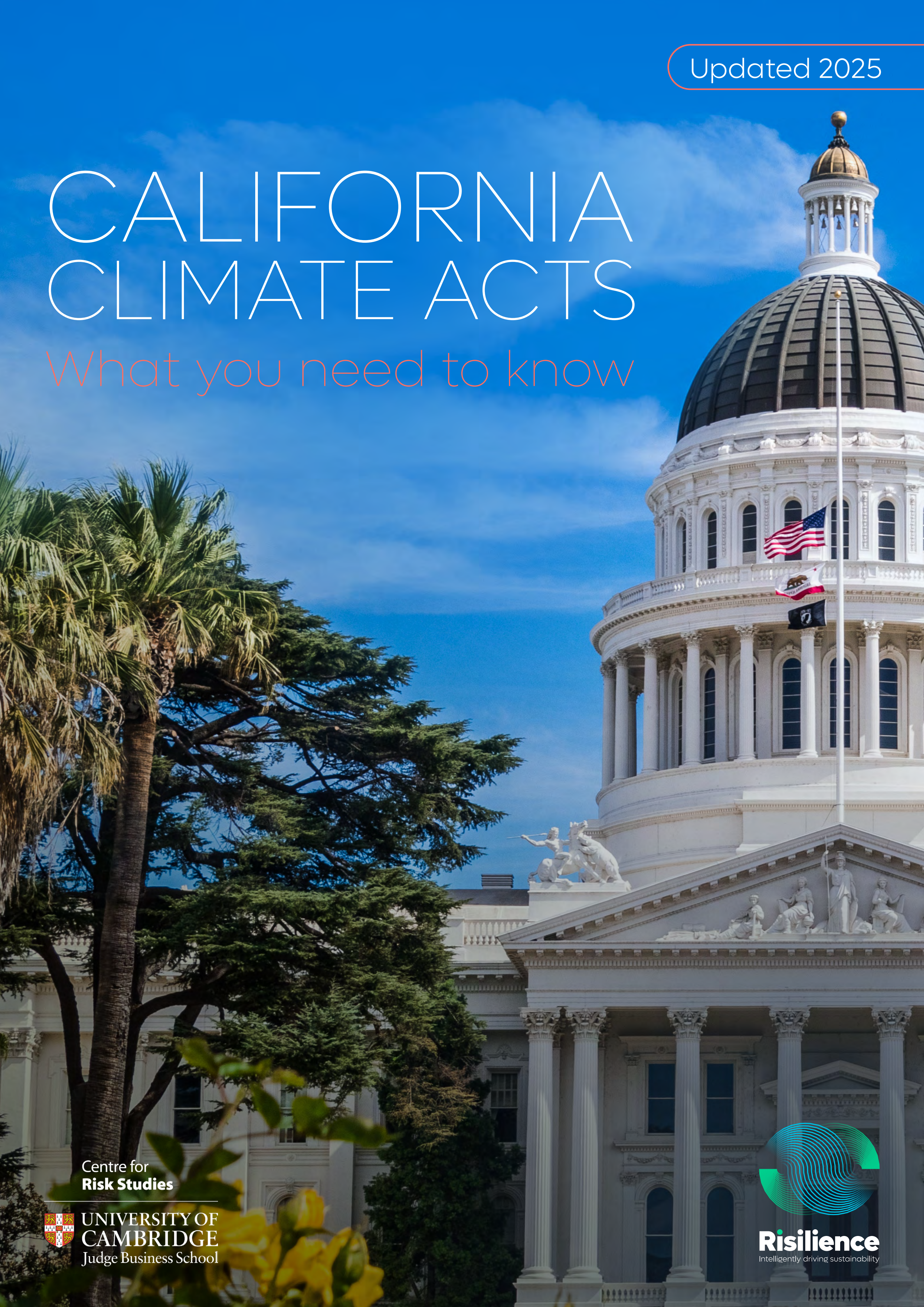
Updated 2025

CALIFORNIA CLIMATE ACTS

What you need to know



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The business briefing

Despite the US Securities and Exchange Commission (SEC) climate disclosure rule now all but officially scrapped[1], the state of California is forging ahead with sweeping climate reporting measures. In July 2025, the state issued guidance confirming disclosure requirements are in effect from January 1, 2026; the starting gun has now been fired, and businesses must move quickly to comply.

California has a track record of pushing progressive environmental issues to the fore and is currently the only US state to have enacted mandatory climate emissions and risk disclosure requirements, compelling companies to integrate company-wide disclosure and reporting on their carbon emissions, exposure to climate-related financial risks and purchase of voluntary carbon offsets.

The suite of bills making up the California Climate Acts serves as a wake-up call for organizations on the importance of assessing and disclosing their climate-related practices, and taking steps to mitigate their climate risks. Bringing financial penalties for non-compliance, and with similar bills making their way through state legislatures in New York, Washington and Colorado, the legislation cannot be ignored.

[1] https://www.cnbc.com/2025/03/27/sec-votes-to-stop-defending-climate-disclosure-rules.html

What are the California Climate Acts?

The California Climate Acts currently comprise four approved acts: the 'Climate Corporate Data Accountability Act' (SB 253)[2], requiring disclosure of scope 1, 2 and 3 greenhouse gas emissions; the 'Climate-related Financial Risk Act' (SB 261)[3], requiring disclosure of climate-related risks and steps taken to mitigate those risks; the 'Greenhouse Gases: Climate Corporate Accountability: Climate-related Financial Risk Act (SB 219)[4], which makes minor amendments to the implementation timelines for SB 253 and SB 261; and, the Voluntary Carbon Market Disclosures Act (AB 1305)[5], which requires disclosure of the use of voluntary carbon offsets. A further bill, 'Net Zero Greenhouse Gas Emissions Goal: Carbon Dioxide Removal' (SB 285) was introduced to the state legislature in February 2025 and seeks to limit the type of carbon offsets permitted for disclosure under SB 253.

The four acts have been approved by the legislature and signed by State Governor Gavin Newsom, with the California Air Resources Board (CARB) now responsible for developing and adopting the regulations necessary to implement the new disclosure regime. Having missed the previous 1st January 2025 deadline, SB 219 gave CARB until 1st July 2025 to implement the necessary regulations – a deadline CARB did not meet, with implementing regulations for SB 253 now in the 'early stages of regulatory development'[6]. SB 285 is relatively early in the legislative process, but marks the next step in California's expanding climate disclosure landscape and is certainly one to watch.

The Climate Corporate Data Accountability Act (SB 253)

The Climate Corporate Data Accountability Act (SB 253) requires a company to publicly disclose its greenhouse gas (GHG) emissions, to include Scopes 1, 2 and 3, to an emissions registry. Disclosures would be subject, in part, to third-party review and must follow the Greenhouse Gas Protocol[7].

The reporting organisation must also obtain an assurance engagement from an independent and experienced third-party provider on all the reporting entity's Scopes 1, 2 and 3 emissions.

The proposed Net Zero Greenhouse Gas Emissions Goal: Carbon Dioxide Removal bill (SB 285) would require that any carbon offsets disclosed by companies in compliance with SB 253 meet certain requirements[8]. It would limit the types of offsets to those which are defined as be carbon dioxide removal projects. Although at the earliest stages, this bill is worth watching for those businesses in scope for SB 253 who use carbon offsets as part of their decarbonisation strategy.

An annual fee, payable upon filing was scrapped under SB 219. Financial penalties for non-compliance are expected to be up to $500,000 per year. However, due to the uncertainty of applicability that is currently described as organizations 'doing business' in California, penalties for erroneous disclosures are prohibited through 2029 and penalties for disclosures made in good faith prohibited thereafter.

2 https://legiscan.com/CA/text/SB253/2023

3 https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB261

4 https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB219

5 https://leginfo.legislature.ca.gov/faces/billCompareClient.xhtml?bill_id=202320240AB1305&showamends=false

6 https://ww2.arb.ca.gov/sites/default/files/2025-07/FAQs%20Regarding%20California%20Climate%20Disclosure%20Requirements.pdf?utm_medium=email&utm_source=govdelivery

7 https://ghgprotocol.org/about-us

8 https://www.ropesgray.com/en/insights/viewpoints/102k589/a-first-look-at-a-new-california-bill-that-would-impact-ghg-emissions-disclosures#page=1

Who is impacted?

All companies, public and private, that do business in California and report over $1 billion in annual revenue must disclose. This means all 'partnerships, corporations, limited liability companies and other business entities' with more than $1 billion in annual revenue. It is expected to apply to over 5,300 companies.

The legislation only applies to companies that 'do business in California'. However, this description lacks clarity. 'Doing business in California' is not explicitly defined in the Act text, leading to uncertainty. At a public workshop in May 2025, CARB proposed the following definition:

- It is actively engaging in any transaction for the purpose of financial or pecuniary gain or profit; and
- any one of the following conditions are met during any part of the reporting year:
    - The entity is organized or commercially domiciled in California.
    - Sales (as defined in RTC Section 25120(e) or (f)) exceed the inflation adjusted threshold of $735,019 (for 2024). For these purposes, sales of the entity would include sales by an agent or independent contractor, and sales in California would be determined using the rules for assigning sales under RTC Sections 25135 through 25137.
    - The real property and tangible personal property of the entity in California exceed the lesser of the inflation adjusted threshold of $73,502 (for 2024) or 25% of the entity's real property and tangible personal property, with the value of property and the determination of whether property is in California to be determined using the rules in RTC Sections 25129 to 25131 and 25137.
    - The amount paid in California for compensation (as defined in RTC Section 25120(c)) exceeds the inflation adjusted threshold of $73,502 (for 2024) or 25% of the total compensation paid by the entity. Compensation in California would be determined using the rules for assigning payroll in RTC Sections 25133 and 25137.

Businesses falling under this scope should move quickly to comply but others that sit outside cannot assume they can ignore the legislation and would be wise to continue to monitor CARB's implementation, as there may be changes following consultation.

Timeline

SB 219 gave CARB a further six months, to 1st July 2025, to implement the required regulations. At the May 2025 public workshop, CARB confirmed it would not meet this deadline but indicated that it is working to develop regulations by year-end, noting in its July update that regulations are at the 'earliest stage of development'[9].

Companies must report Scope 1 and Scope 2 emissions from 2026, with Scope 3 from 2027. SB 219 makes provision for CARB to delay the implementation of these reporting requirements, a position CARB intimated at May's workshop that they may follow, although this is by no means certain. However, CARB have stipulated that they will not take enforcement action for incomplete reporting during the first reporting cycle, where disclosures are made in good faith[10]. SB 219 further requires CARB to specify a schedule for reporting entities to publicly disclose their scope 3 emissions. Under the original requirements, companies would have been required to disclose their scope 3 emissions no later than 180 days after publicly disclosing their scope 1 and 2 emissions. Companies should continue to plan for the disclosure of Scope 3 emissions from 2027 onwards.

9 https://ww2.arb.ca.gov/sites/default/files/2025-07/FAQs%20Regarding%20California%20Climate%20Disclosure%20Requirements.pdf?utm_medium=email&utm_source=govdelivery

10 https://ww2.arb.ca.gov/sites/default/files/2024-12/The%20Climate%20Corporate%20Data%20Accountability%20Act%20Enforcement%20Notice%20Dec%202024.pdf

The Climate-related Financial Risk Act (SB 261)

The Climate-related Financial Risk Act (SB 261) requires companies in scope to prepare and submit climate-related financial risk reports. It defines climate-related financial risk as 'material risk of harm to immediate and long-term financial outcomes due to physical and transition risks, including, but not limited to, risks to corporate operations, provision of goods and services, supply chains, employee health and safety, capital and financial investments, institutional investments, financial standing of loan recipients and borrowers, shareholder value, consumer demand, and financial markets and economic health'[11].

Companies will be required to prepare these reports in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Companies will also need to disclose the measures adopted to reduce and adapt to the climate-related financial risks identified in their disclosures.

Companies can also choose to prepare disclosures in line with a comparable climate disclosure standard. SB 261 makes provision for both compliance with a successor to the TCFD and the use of comparable international standards. The work of the TCFD has now been subsumed by the International Sustainability Standards Board (ISSB) and their published standards IFRS S1 and S2, indicating that companies may follow these standards in preparing their disclosures. Likewise, disclosures prepared under the European Union's Corporate Sustainability Reporting Directive, including its Omnibus amendments outlined in Q1 2025, will be permissible under SB 261.

An annual fee, payable upon filing was scrapped under SB 219. Businesses in scope face financial penalties for non-compliance that are expected to be up to $50,000 per year.

Who is impacted?

Any corporation or other business entity formed under the laws of the US (Federal or State – California, Washington DC or other) doing business in California, which reports over $500m in annual revenue, will be affected. Companies that are formed under the laws of other countries will not be impacted, even if they do business in California. The reach of the California Act (SB 261) is significant – it is expected to apply to between 2,500 and 10,000 companies, depending on sources.

Timeline

In-scope companies must report by January 1st, 2026 in the first instance, and biennially thereafter. Despite concerns being raised during the legislative process about the impacts of this timeline, CARB confirmed in the July 2025 update that the first reports are due by January 1st, 2026.

CARB also confirmed that initial climate-related financial risk reports may cover fiscal years 2023/24 or 2024/25, depending on the availability of relevant data.

[11] https://ww2.arb.ca.gov/sites/default/files/2025-07/FAQs%20Regarding%20California%20Climate%20Disclosure%20Requirements.pdf?utm_medium=email&utm_source=govdelivery

The Voluntary Carbon Markets Disclosures Act (AB 1305)

The Voluntary Carbon Markets Disclosures Act (AB 1305) requires companies who purchase, sell or use carbon offsets to support climate-related claims to disclosure detailed information regarding these offsets. It is designed to enhance the transparency of the voluntary carbon offset market[12] and address concerns regarding greenwashing.

Companies must disclose details regarding the calculation methodology, location, timeline, quantities, accreditation, project type and duration of the relevant carbon offsets, as well as whether any independent or third-party validation of these characteristics has been made.

Who is impacted?

Companies purchasing or using carbon offsets as part of their business practices or making climate-related claims about the use of these offsets are in scope. Offsets must have been purchased in California. Similarly, companies selling or marketing offsets in California are also required to comply.

Companies must outline the required information through a statement on their website, published at least on an annual basis if not more regularly. Non-compliance is subject to individual violation penalties of $2,500 per day up to a total of $500,000.

Timeline

AB 1305 was approved in October 2024 and applies from January 2024. In a somewhat surprising-yet-necessary clarification, the author of the bill stated that he had intended it to apply from January 2025 rather than 2024 – despite this being in the past at the time of the bill's passing.

[12] See Using voluntary carbon offsets as part of your net-zero plan for further detail on the Voluntary Carbon Offset market https://risilience.com/resources/reports/using-voluntary-carbon-offsets-as-part-of-your-net-zero-plan/

The California Climate Acts Key Timelines

Timelines are as they currently stand. Future changes are likely.

	SB 253	SB 261	AB 1305
01/01/2024			Carbon offset disclosure requirements take effect
07/01/2025	Extended deadline for CARB to adopt implementing regulations (not met)		
01/01/2026	Reporting of Scopes 1 and 2 emissions begins (date still to be defined by CARB by 07/01/2025). Limited assurance required, subject to CARB review in 2027	First reports to be published (required biennially thereafter), using 2023/24 or 2024/25 data.	
2027	Reporting of Scope 3 begins (date still to be defined by CARB)		
2030	Reasonable assurance on Scopes 1 and 2 required.		
	Limited assurance on Scope 3 required. (Dates to be defined by CARB)		
	Penalties take effect for erroneous disclosures when not made in good faith.		

Legal issues

Following adoption of the CCAs, a lawsuit was filed by the US Chamber of Commerce, the California Chamber of Commerce and other business groups. This sought to challenge the legality of the legislation on a range of grounds: that it violates US federal authority to regulate greenhouse gas emissions; that it violates limitations on interstate commerce; and finally, that it compels speech in violation of First Amendment protections. Whilst the first two challenges have been dismissed by the courts[13], the First Amendment claim has proceeded and is unlikely to conclude ahead of the implementation deadline[14]. With respect to SB 253, the courts dismissed the first two claims without prejudice, meaning that once CARB implements the necessary regulations, the claims may be made again. However, the courts dismissed the claims against SB 261 with prejudice, meaning they cannot be brought again.

On the 8th April, 2025 President Trump signed an Executive Order titled 'Protecting American energy from state overreach' singling out state-level climate legislation for attack[15], in particular emissions reporting obligations such as in SB 253. Although it does not explicitly call out climate risk disclosure legislation such as SB 261, it is likely that this will fall within the crosshairs of the Attorney General's efforts. Within 60 days of the date of the Executive Order, the Attorney General was required to prepare a submit a report to President Trump recommending any additional legislative actions needed to stop enforcement of these laws. Although this is a relatively quick timeline, it is guaranteed that the States will fight these actions in the courts – a process that will take much longer to resolve. At the time of publication in July 2025, no report by the Attorney General had been made public, nor are there currently any published plans to do so.

How do the California Climate Acts compare internationally?

Globally, companies are increasingly in scope for climate and sustainability reporting obligations, but the myriad of different frameworks presents hurdles to efficient reporting. Initially presented as the solution to fragmented reporting requirements, the IFRS Sustainability Disclosure Standards are themselves undergoing change when being implemented into national standards, most notably in Australia which has scaled back their requirements from sustainability to climate-only.

In the EU, expansive reporting requirements outlined in the European Sustainability Reporting Standards look set to be scaled back. The European Commission's recently announced 'Omnibus' proposal to delay sustainability reporting by two years, limit the scope of companies reporting and reduce what they are required to report has cleared its first political hurdle, with all branches of government having approved the postponement[16] and developing their negotiating positions on the substantive changes.

The requirements of California's Climate Acts are a welcome step in the right direction but continue to play catch up with other jurisdictions. Both CSRD in the European Union and the IFRS Sustainability Disclosure Standards globally go further than California in moving the dial from climate-related risks to broader, sustainability-related risks.

13 https://www.globalelr.com/2025/02/court-dismisses-portions-of-lawsuit-against-california-climate-disclosure-laws/

14 https://www.globalelr.com/2025/03/legal-battle-over-californias-climate-disclosure-laws-continues-as-plaintiffs-file-a-motion-for-preliminary-injunction/#page=1

15 https://www.whitehouse.gov/presidential-actions/2025/04/protecting-american-energy-from-state-overreach/

16 https://www.europarl.europa.eu/news/en/press-room/20250331IPR27557/sustainability-and-due-diligence-meps-agree-to-delay-application-of-new-rules

Steps to take, now

The California Climate Acts are part of a wider global regulatory movement driving rigorous climate and, increasingly, nature reporting from businesses – and they cannot be ignored.

Companies in scope of the California Climate Acts should be proactive in taking preparatory steps to meet disclosure requirements now as the process of locating, gathering, interrogating and reporting the information will require time and resource. Whilst the outcome of ongoing legal processes is naturally uncertain, waiting for the resolution of ongoing legal processes will significantly impact a company's readiness to report.

For those businesses uncertain whether they are in scope, it will be imperative to monitor CARB's announcements as they draw up the enforcement regulations.

A first step will be to establish your company's emissions footprint, across all scopes, in order to provide the requisite information to disclose against SB 253.

Following that, it is essential to explore how your company's emissions footprint will expose it to physical and transition climate risks, to comply with SB 261. This should include a consideration of different emission pathways, to account not only for how temperatures are set to increase but how our societies will adapt as a result.

Meeting climate disclosure requirements should not be viewed as a burden, rather it can deliver valuable strategic insights for an organisation. Understanding climate-and nature-related risks and opportunities, and financially quantifying them, enables a business to surface priorities, mitigate risk and optimise commercial opportunity.

Preparing for climate disclosure provides insights valuable to building a credible transition plan that underpins and informs the positive business transformation required to thrive in a low-carbon economy.

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What you need to know

At Risilience, our mission is to help global businesses transition to the net-positive economy. Our award-winning platform and advisory services drive actionable Sustainability Intelligence, connecting climate and nature, to deliver better disclosures, better risk insights and better transition strategy.

Our technology enables you to quantify the financial impact of climate-and-nature-related risks and opportunities to make better business decisions that lead to better business outcomes.

We developed our environmental frameworks in partnership with the University of Cambridge Centre for Risk Studies to enable you to deliver credible and rigorous sustainability disclosures, and transition plans, on your journey to net positive.

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