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Environmental Alert

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California climate disclosure & reporting requirements take shape

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The California Air Resources Board (CARB) released long-awaited guidance detailing implementation of Senate Bills 253 and 261, scope of entity applicability, and emission reporting expectations. As accurate climate disclosures can take 3 to 6 months to gather, companies are encouraged to consider CARB's new guidance offers now to prepare for the January 1, 2026, compliance deadline.



What's the impact?

- CARB's FAQs clarify applicability revenue thresholds, disclosure timing, and initial expectations for compliance and enforcement under SB 253 and SB 261.
- CARB's FAQs offer a helpful roadmap for companies to evaluate their potential compliance obligations by interpreting "doing business in California" and revenue thresholds.
- As CARB intends to finalize regulations by the end of 2025, and initial compliance deadlines are fast approaching in 2026, businesses should act now to assess applicability, build robust reporting systems, and engage assurance providers.

California enacted two significant climate disclosure laws, [Senate Bill 253 \(SB 253\)](#), the Climate Corporate Data Accountability Act, and [Senate Bill 261 \(SB 261\)](#), the Climate-Related Financial

Risk Disclosure Act. These laws, effective in 2026, impose novel and wide-reaching disclosure and reporting obligations on large business entities “doing business” in the state.

Overview of California’s climate disclosure laws

- / **SB 253** requires annual disclosures of Scope 1, 2, and 3 greenhouse gas (GHG) emissions by entities doing business in California with **annual revenues exceeding \$1 billion**.
- / **SB 261** requires biennial disclosures of climate-related financial risk, consistent with the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#) framework, from entities doing business in California with **annual revenues exceeding \$500 million**.

Both laws apply irrespective of incorporation location or headquarters, expanding the reach of California’s climate disclosure requirements well beyond state lines.

CARB guidance and FAQs

On July 9, 2025, CARB published preliminary guidance, titled [California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Programs: Frequently Asked Questions Related to Regulatory Development and Initial Reports](#). This preliminary guidance and FAQs are structured to help companies prepare for these new obligations by offering an initial interpretation of the statutes’ key terms and a compliance roadmap. While CARB’s FAQs are not draft regulations, which will still be forthcoming, they do provide essential direction for regulated entities, interpreting key provisions of SB 253 and SB 261 and setting expectations for upcoming regulatory developments.

APPLICABILITY AND THRESHOLDS

As requirements under SB 253 and SB 261 apply broadly to entities “doing business” in California that meet certain revenue thresholds, a key question for businesses is if they are “doing business in California” and whether the revenue thresholds are tied to that business in California or include out-of-state revenue. CARB’s FAQs provide some clarity on revenue thresholds that will be further flushed out in forthcoming regulations.

- / SB 253 applies to entities “doing business in California” with at least \$1 billion annual revenues, while SB 261 applies to entities “doing business in California” with annual revenues over \$500 million.
- / CARB’s initial concept of “total annual revenue” for SB 253 and SB 261 is to have this defined as gross receipts and consistent with definitions in California Revenue and Taxation Code § 25120(f)(2).
- / CARB also plans to set the standard for “doing business in California” consistently with the Franchise Tax Board’s criteria under California Revenue & Taxation Code § 23101. In doing so a business would meet criteria for “doing business in California” if it is actively engaging in any

transaction for the purpose of financial gain or profit and meets any of the following conditions:

- The entity is organized or commercially domiciled in California.
- The entity has California-based sales that exceed approximately \$735,019 (adjusted for inflation).
- The entity owns property in California, which value exceeds \$73,502 (adjusted for inflation) is 25% or more of the entity's real and tangible personal property.
- The entity has paid compensation in the state that exceeds set thresholds of \$73,502 (adjusted for inflation) or 25 percent of the total compensation paid by the entity.

In short, the guidance implies the thresholds are structured separately—both must be satisfied for a company to be required to disclose; however, the \$500,000/\$1 billion revenue threshold and the doing business in California threshold are evaluated independently. In other words, if implemented in the forthcoming draft regulations in this manner, some large companies with only limited physical or operational ties to the state will need to disclose.

SB 253 GREENHOUSE GAS EMISSION REPORTING

SB 253 requires covered entities to report greenhouse gas (GHG) emissions, including their Scope 1 (direct), Scope 2 (indirect from purchased energy), and Scope 3 (all other indirect).

- / **Reporting timeline.** Regulated businesses must report Scope 1 and 2 emissions beginning in 2026 (based on 2025 emissions data), and Scope 3 emissions beginning in 2027.
- / **Assurance requirements.** Scope 1 and 2 data must be verified by an independent third party with limited assurance starting in 2026 and at a reasonable assurance beginning in 2030.

SB 261 CLIMATE-RELATED FINANCIAL DISCLOSURES

SB 261 requires covered entities to disclose climate-related financial risks and mitigation strategies, following the TCFD framework. This includes governance, strategy, risk management, and metrics.

- / **Reporting timeline.** Initial disclosures are due by January 1, 2026, with subsequent disclosures due biennially.
- / **Public availability.** Disclosures must be made publicly available on the company's website.

Public comment opportunities

While CARB's FAQs are helpful to determine the likelihood of compliance obligations under California's climate disclosure laws, CARB still needs to issue draft regulations to fully implement reporting and disclosure requirements. CARB's FAQs ask for critical feedback on how it defines "doing business in California" and how it should evaluate corporate entity relationships for

purposes of identifying revenue thresholds. CARB plans to release proposed regulations by the end of the year, allowing only a short window for interpretation for the January 1, 2026, deadline.

Key takeaways for sustainability, compliance, and legal teams

Given the scope and complexity of California's climate disclosure and emission reporting laws, companies should act now to assess potential applicability and, if needed, begin the process of collecting emissions data and climate risk reporting. Early preparation will be critical to meet the fast-approaching compliance deadlines and ensure alignment with evolving regulatory expectations. Some actions companies can take now include:

- / **Determining applicability.** Conduct a threshold analysis, including consideration of corporate affiliates, to assess whether revenue and California business presence trigger obligations under SB 253 or SB 261.
- / **Prepare emissions and risk reporting systems.** Initiate or enhance GHG accounting systems, especially for Scopes 1 and 2, with future expansion to Scope 3. Align internal reporting processes with TCFD, including governance structures, risk modeling, and public disclosure protocols.
- / **Engage assurance providers.** Companies should consider engaging with assurance providers early due to anticipated capacity constraints and technical requirements.
- / **Monitor regulatory developments.** CARB's guidance is subject to change, and implementing regulations will follow. Businesses should closely track rulemaking activity and may wish to engage in the comment process. Businesses can [sign up for CARB's rulemaking alerts, here](#).

If you would like assistance assessing your company's exposure, preparing comments, or implementing compliance measures, we're here to help. For more information on this content, please contact your Nixon Peabody attorney or the authors of this alert.

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