

# California Breaks New Ground With Climate Accountability Laws

**A** groundbreaking pair of new California laws mandating greenhouse gas emissions reporting and climate risk-related financial disclosures will resound well beyond state borders. The laws fill a gap left by a gridlocked Congress and federal regulatory agencies that are moving only slowly to address climate change.

The laws cast a wide net, regulating both public and private large U.S. companies that “do business” in California. The Climate-Related Financial Risk Act regulates businesses with total annual revenues over \$500 million—about 10,000 companies. By 2026, covered businesses are required to submit biennial climate-related financial risk reports that disclose both the risks and measures adopted to reduce and adapt to them.

“Climate-related financial risk” is defined as “mate-

rial risk of harm to immediate and long-term financial outcomes due to physical and transition risks” and can include, for example, risks to shareholder value and consumer demand. The law recognizes that “thousands of companies already disclose climate-related financial risks,” but concludes that “current disclosure standards are voluntary, and thus inadequate, for meeting rapidly accelerating climate risks.”

The second law, the Climate Corporate Data Accountability Act, applies to businesses with annual revenues over \$1 billion—about 5,300 companies. The goals are to “inform investors, empower consumers, and activate companies to improve risk management.”

Businesses are required to report annually to an emissions reporting organization (contracted by the state) following the Greenhouse Gas Proto-

col standards and guidance developed by the World Resources Institute and the World Business Council for Sustainable Development. Starting in 2026, businesses must report their Scope 1 emissions (from owned or controlled sources) and Scope 2 emissions (from purchased or acquired energy use) and in 2027 their Scope 3 emissions (indirect upstream and downstream emissions from sources not owned or directly controlled by the business).

In addition, businesses are required to engage an independent third-party assurance provider for their public disclosures. The assurance engagement for Scope 1 and Scope 2 emissions must be performed at a “limited assurance level” beginning in 2026 and at a “reasonable assurance level” beginning in 2030. The assurance engagement for Scope 3 emissions must be performed at a “limited assurance level” starting in 2030.

The requirement to report Scope 3 emissions is trailblazing and emphasizes that corporations should account for customer, supplier, and employee emissions. At the same time, the law recognizes the attendant challenges by providing a relaxed timeline for reporting and referencing the need to follow Scope 3 emissions calculations guidance on topics such as the use of primary and secondary data sources.

Johnson Controls’ Katie McGinty recognizes that “it is vital that investors have visibility to the climate risks and opportunities faced by companies they might invest in,” but she emphasizes “it is important that the laws recognize the difference in the rigor of data related to emissions under the control of companies as compared to emissions that are not under the control of companies and to which they

**Pathbreaking new laws will drive change beyond the state’s borders**



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may have little or no direct visibility.” She cautions: “Let’s not undermine the need for quality climate data for investors by pretending Scope 3 data is more rigorous than it is or can be.”

Both laws emphasize the importance of ensuring that public disclosures are easily understandable and accessible. For example, the creation of a publicly accessible digital platform is mandated—and must be capable of featuring individual reporting entity disclosures and allowing users to view data elements aggregated in a variety of ways.

Implementation of the laws will be no easy feat. For example, in his signing statements, Governor Gavin Newsom flagged two issues of concern. He emphasized the need to reconsider the implementation deadlines and to closely monitor the potential cost impacts on businesses. In addition, the Securities and Exchange Commission’s pending reporting and disclosure regulations as well as the likelihood of legal challenges to the laws could affect implementation efforts.

Nevertheless, other states may follow suit. The laws are likely to have an outsized influence, given the size of state’s economy and number of corporations that conduct business in other states as well as California. As Arizona State University Professor Lily Hsueh explained in *The Conversation*: “California is in effect exercising its immense market leverage to establish climate disclosures as standard practice in the U.S. and beyond.”