pinion

The Impact of California's Climate Accountability Package on Environmental Reporting:

What It Means for Your Business

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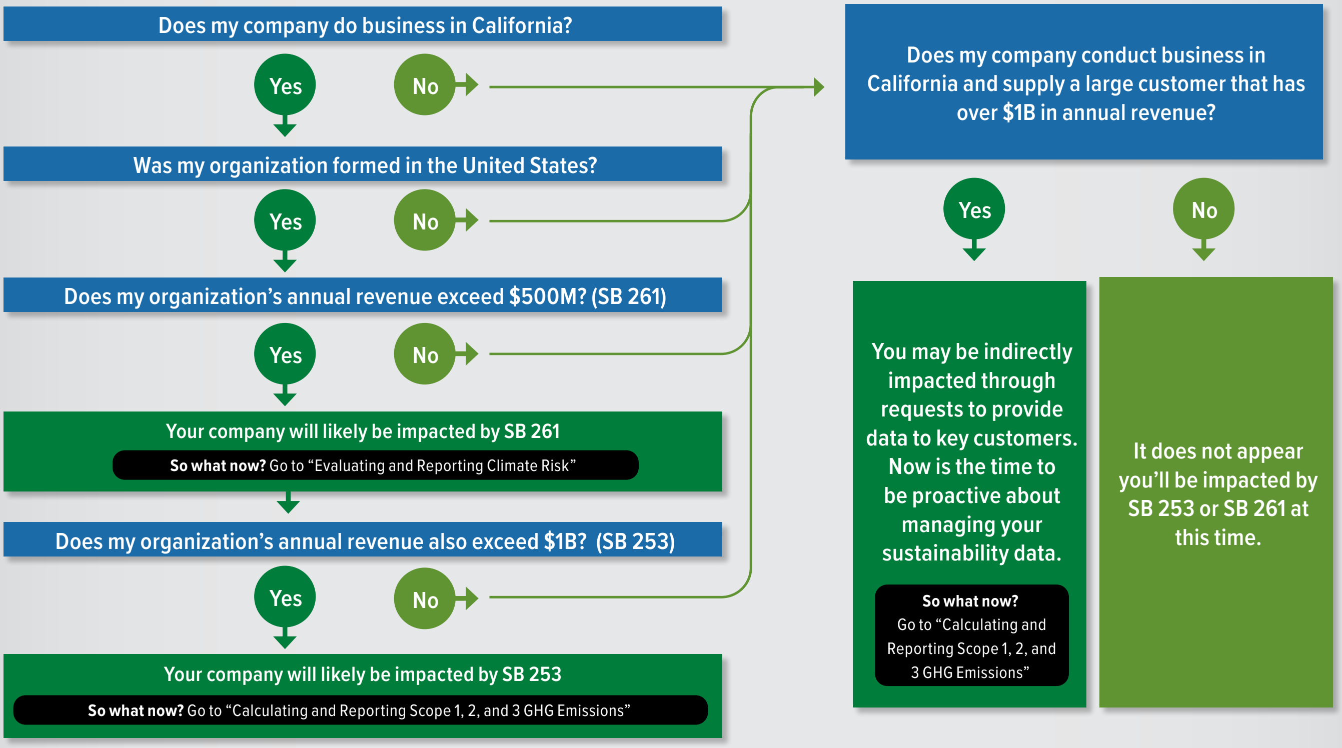
Executive Summary

In October 2023, California Gov. Gavin Newsom signed two new bills into law, known as the "California Climate Accountability Package," which will set a new standard for corporate transparency on greenhouse gas (GHG) emissions and climate risk. As it currently stands, Senate Bill 253 (SB 253) and Senate Bill (SB 261) will require companies doing business in California over certain revenue thresholds to start reporting their GHG emissions and climate-related financial risk as soon as 2026.

Does the CA Climate Accountability Package apply to your company?



Early Steps

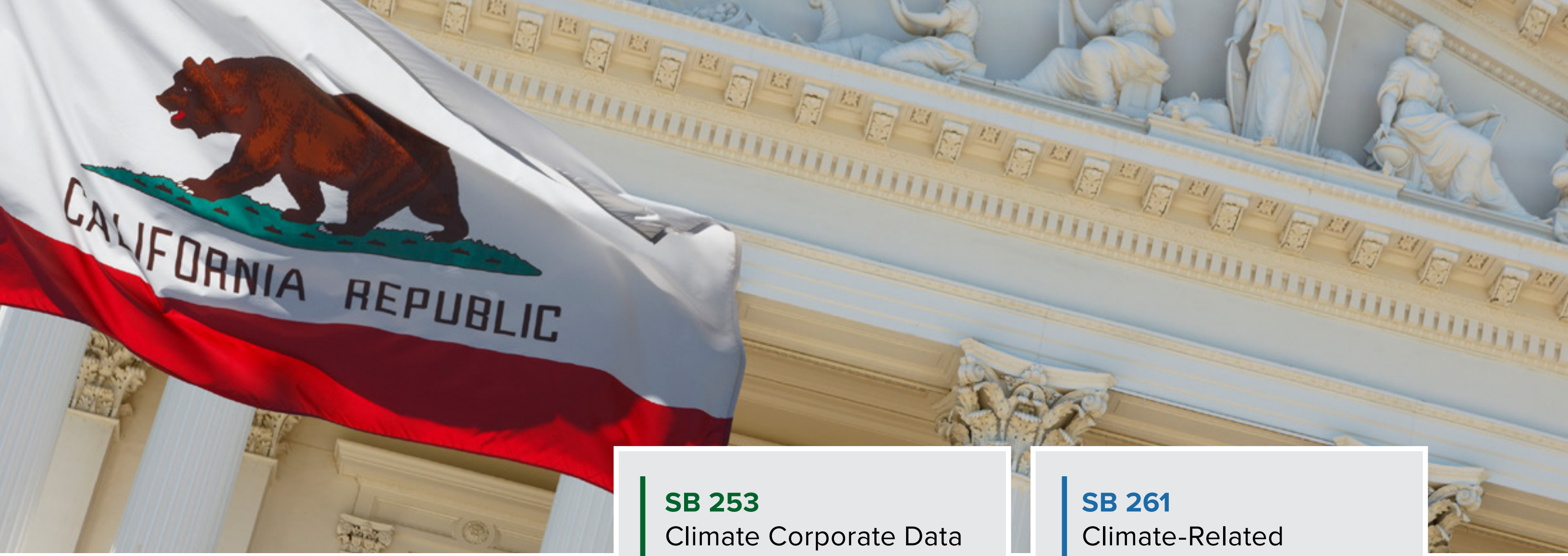
It's important for those affected by the bills to take proactive steps to incorporate climate considerations into their governance and risk management strategies. The following are some early recommendations as the California Air Resources Board (CARB) continues to prepare the regulatory framework to measure and enforce these laws.

STEP 1: Evaluate industry-specific and climate-related disclosures under existing standards.

STEP 2: Identify gaps between current internal control and data governance systems, and new regulatory requirements.

STEP 3: Discuss data requirements with owners, relevant stakeholders, and leadership.

STEP 4: Train and inform relevant team members at all levels to develop a preparedness strategy.



SB 253
Climate Corporate Data Accountability Act (CCDAA)

SB 261
Climate-Related Financial Risk Act (CRFRA)

Introduction

On October 7, 2023, California Gov. Gavin Newsom signed two new bills into law, known as the "California Climate Accountability Package," which will set a new standard for corporate transparency on greenhouse gas (GHG) emissions and climate risk. As it currently stands, Senate Bill 253 (SB 253) and Senate Bill (SB 261) will require companies doing business in California over certain revenue thresholds to start reporting their GHG emissions and climate-related financial risk as soon as 2026. These new bills apply to both private and publicly held companies. Companies under the revenue thresholds may also be impacted as their customers may need to collect additional information from them to assist with reporting under the new bills.

The California Air Resources Board (CARB) has been tasked with developing the regulatory framework for applying these new laws, and exactly how these regulations will be implemented is not fully known at this time. The following report breaks down which companies will be required to report, the implications of these bills, their effective dates, and how they align with global climate disclosure standards.

Comparison: CCDAA vs. CRFRA

	SB 253: Climate Corporate Data Accountability Act (CCDAA)	**SB 261: Climate-Related Financial Risk Act** (CRFRA)
Who?	Companies with **annual revenues over $1 billion** and "doing business in California"	Companies with **annual revenues over $500 million** and "doing business in California"
What and when?	**2026** – Scope 1 and 2 GHG emissions with limited assurance; annually thereafter **2027** – Scope 3 GHG emissions; annually thereafter **2030** – Scope 1 and 2 GHG emissions with reasonable assurance; potentially scope 3 GHG emissions with limited assurance	**2026** – Climate-related financial risks and measures adopted to reduce and adapt to these risks in accordance with the TCFD or IFRS framework; every two years thereafter
How?	Report to an "emissions reporting organization" established by the state	Prepare and publish a publicly available report on company's website

Summary of Bills

SB 253: Climate Corporate Data Accountability Act (CCDAA)

This bill will require companies that are doing business in California with annual revenues exceeding $1 billion to report their GHG emissions annually. The bill is aligned with the California Global Warming Solutions Act of 2006 that requires the California Air Resources Board to adopt regulations which require the reporting and verification of statewide GHG emissions.

By 2026, companies that meet the above criteria will be required to report both their direct emissions and emissions from purchased energy (scope 1 and 2) for the 2025 reporting period. By 2027, they will also be required to report supply chain emissions (scope 3) for the 2026 reporting period. Although these laws will not require companies that meet the above criteria to collect data from all their suppliers, it could increase the number of GHG emissions data requests that suppliers to these companies receive. See more about supplier impacts below.

Under this bill, companies will be required to report their GHG emissions publicly via a web portal. If they fail to report their emissions, companies will face fines of up to $500,000 per year.

The bill also requires reporting entities to obtain an assurance engagement performed by an independent third-party assurance provider of the entity's public disclosure. For scope 1 and 2 emissions data, the assurance engagement will be performed at a limited assurance level starting in 2026 and at a reasonable assurance level beginning in 2030. For scope 3, CARB may decide to require limited assurance by 2030, but that has not been confirmed at this time.

The bill originally included direction for CARB to implement the bill's reporting requirements by January 1st, 2025, however that deadline has been extended to July 1, 2025. Despite this extension, the deadline for reporting scope 1 and 2 GHG emissions remains unchanged.

SB 261 Climate-Related Financial Risk Act (CRFRA)

This bill will require companies that are doing business in California with annual revenues over $500 million to report their climate-related financial risks and measures adopted to reduce and adapt to climate-related financial risks every two years.

To avoid duplicative reporting requirements, the CRFRA will require reporting aligned with leading global frameworks for evaluating climate risk, including the Task Force on Climate-Related Financial Disclosures (TCFD) and the IFRS climate disclosure standards.

For most companies, their first report must be published on their website by January 1, 2026. However, companies subject to regulation by the California Department of Insurance, or companies that are in the business of insurance in any other state, will be excluded from having to report. Additionally, if a company is already reporting publicly using TCFD or IFRS standards, it will be excluded from having to report separately. If a company is unable to complete the reporting consistent with all required disclosures, they must complete the report to the best of their ability, explain the gaps, and outline plans for complete disclosure or pay fines of up to $50,000 per reporting year.

Creating a Plan for Action

Does the CA Climate Accountability Package apply to your company?

Does my company do business in California?

Yes ↓ / No →

Was my organization formed in the United States?

Yes ↓ / No →

Does my organization's annual revenue exceed $500M? (SB 261)

Yes ↓ / No →

Your company will likely be impacted by SB 261

So what now? Go to "Evaluating and Reporting Climate Risk"

Does my organization's annual revenue also exceed $1B? (SB 253)

Yes ↓ / No →

Your company will likely be impacted by SB 253

So what now? Go to "Calculating and Reporting Scope 1, 2, and 3 GHG Emissions"

Does my company conduct business in California and supply a large customer that has over $1B in annual revenue?

Yes ↓ / No ↓

Yes: You may be indirectly impacted through requests to provide data to key customers. Now is the time to be proactive about managing your sustainability data.

So what now? Go to "Calculating and Reporting Scope 1, 2, and 3 GHG Emissions"

No: It does not appear you'll be impacted by SB 253 or SB 261 at this time.

How to Prepare for GHG Reporting

1 Determine GHG reporting requirements

- Which climate-related regulations apply to your company?
- Which stakeholders (customers, investors, etc.) are requesting GHG data?

Tip: The flowchart on page 5 is a helpful guide to determine your organization's GHG reporting requirements.

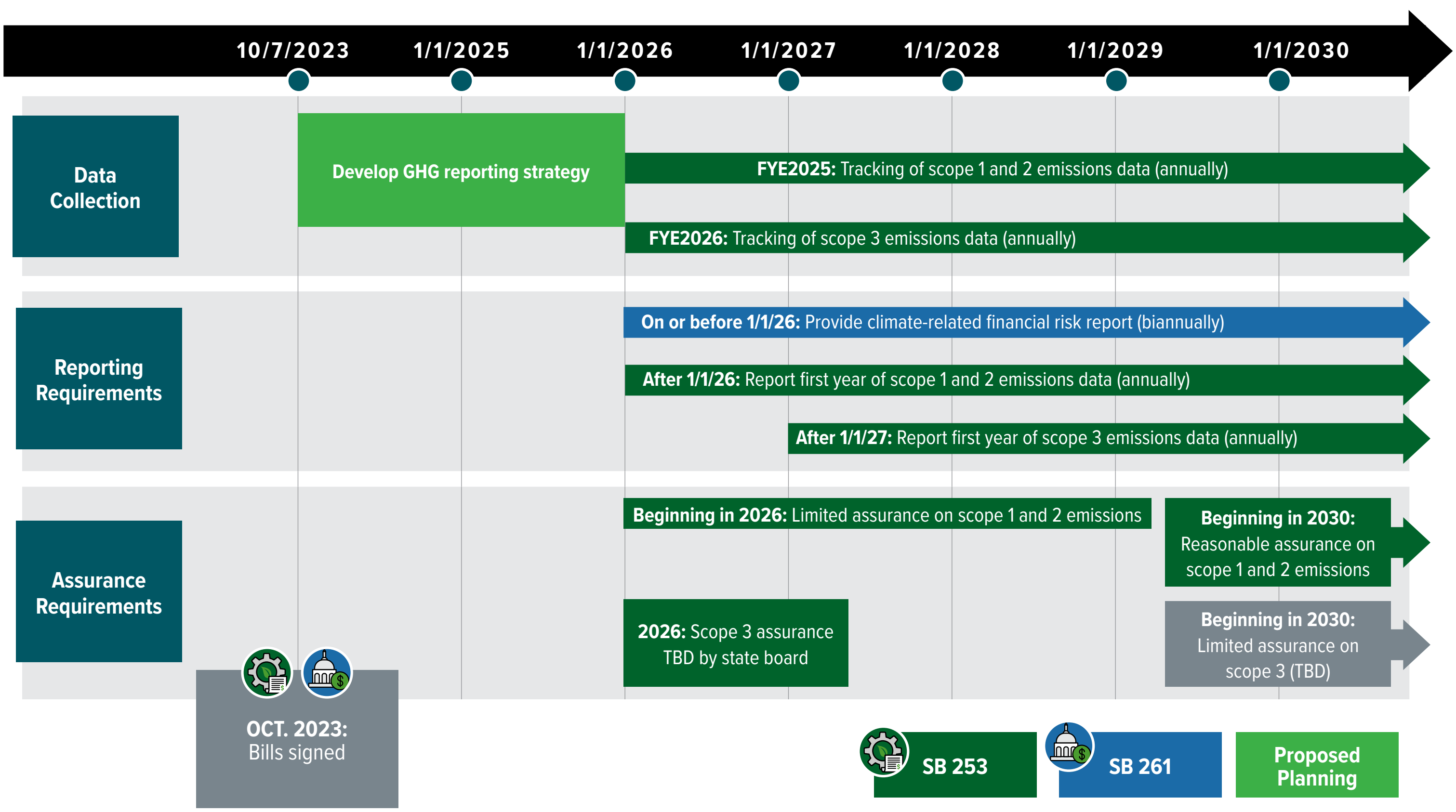
2 Develop a GHG strategy or roadmap

- Who will lead this effort? Who needs to be involved?
- What data does your company need to report?
- Where are disclosures and data reported?
- When does this information need to be provided?

3 Anticipate long-term needs and holistic planning

- For GHG inventory development, how can you develop documentation to be "audit-ready"?
- For climate related risk assessment, how can you leverage existing, boarder strategic planning for business risks and opportunities?

Timeline



Complying with SB 253: Calculating and Reporting Scope 1 and 2 GHG Emissions

What are Scope 1 and 2 Emissions

Scope 1 and 2 GHG emissions are categories of emissions that reflect the direct and indirect impact of a company's activities on the climate. Scope 1 emissions are direct emissions from sources that are owned or controlled by the company, such as fuel combustion in boilers, furnaces, vehicles, or refrigeration systems. Scope 2 emissions are indirect emissions from the generation of electricity, steam, heat, or cooling that the company purchases and consumes.

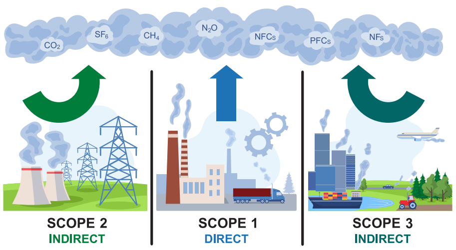
SCOPE 1
DIRECT EMISSIONS
Examples: *Fuel combustion in boilers, furnaces, vehicles, refrigeration systems, etc.*

SCOPE 2
INDIRECT EMISSIONS
Examples: *Generation of electricity, steam, heat, or cooling that is purchased and consumed.*

How to Calculate

To calculate scope 1 and 2 emissions, a company collects data on the amount and type of fuel used in its operations, as well as the amount used and source of electricity, steam, heat, or cooling purchased. The company also collects data on any other on-site activities that produce GHG emissions, such as the release of refrigerant GHGs or wastewater treatment. The company then applies appropriate emission factors to convert the energy and activity data into GHG emissions. Emission factors are coefficients that estimate the amount of GHG emitted per unit of energy or activity.

The scope and boundaries of data collection depend on the organizational and operational structure of the company. The company defines which entities, facilities, or activities are included or excluded from its GHG inventory, and how it accounts for any changes in ownership or control over time. The company also chooses a consistent reporting period and base year for its emissions calculations.



Timeline

10/7/2023 | 1/1/2025 | 1/1/2026 | 1/1/2027 | 1/1/2028 | 1/1/2029 | 1/1/2030

Reporting Requirements

After 1/1/26: Report first year of scope 1 and 2 emissions data (annually)

Complying with SB 253: Calculating and Reporting Scope 3 GHG Emissions

What are Scope 3 Emissions

Scope 3 emissions are a category of GHG emissions that originate from sources that are not directly owned or controlled by the company, but that occur within its value chain. Scope 3 emissions include emissions from 15 different categories that are both upstream and downstream from the company. Sources of scope 3 emissions include, but are not limited to, goods and services purchased by the company, transportation of goods to and from the company, and product use by the end customer. Scope 3 emissions often represent the majority of a company's total GHG inventory.

How to Calculate

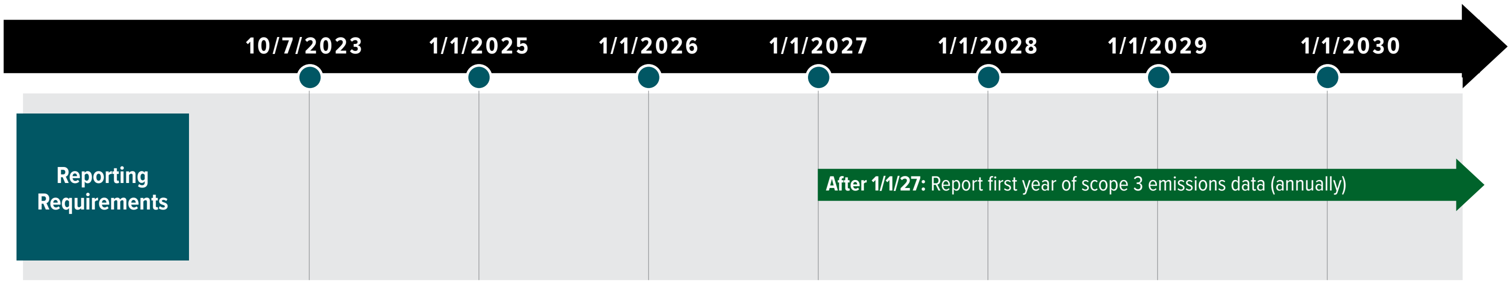
To calculate scope 3 emissions, a company identifies all the relevant categories of emissions in its value chain. The company may collect primary data on the activities and emissions of its suppliers, customers, and other partners, which may require collaboration and communication across the value chain. When primary data is not available, the company may instead apply appropriate emission factors to estimate the GHG emissions associated with each of the applicable scope 3 categories.

As companies calculate their scope 3 emissions to comply with California's SB 253 Climate Corporate Data Accountability Act (CCDAA), they may use industry averages and regional estimates in lieu of specific data collected directly from their suppliers and partners. However, many large companies are already asking their key suppliers and partners for this data and for collaboration on GHG emission reduction targets previously set. It is unknown at this time how many new requests could be generated by large companies because of these new regulations.

"What if my company conducts business in California and supplies a large customer that has over $1B in annual revenue?"

It's important to make a plan now. A key client will likely ask for your assistance by requesting scope 1 and 2 emissions data from your company to help them adhere to the latest regulations in California. Should such requests arise, be aware that gathering and organizing this information can be a lengthy process. Therefore, it's recommended to start early so this information can be provided to customers in a timely manner.

Timeline



Complying with SB 261: Evaluating and Reporting Climate Risk

California's Climate-Related Financial Risk Act (CRFRA) requires certain companies to report their climate-related financial risks aligned with leading global frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD). This framework is a set of recommendations developed to help companies and investors disclose and assess the financial implications of climate change. The TCFD framework covers four topics: governance, strategy, risk management, and metrics and targets.

The following chart (see below) from the most recent 2017 TCFD report titled, "Recommendations of the Task Force on Climate-Related Financial Disclosures," provides guidance for companies to follow when disclosing their climate-related financial risks and risk-mitigation measures adopted.

Recommendations and Supporting Recommended Disclosures			
Governance	**Strategy**	**Risk Management**	**Metrics and Targets**
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a. Describe the board's oversight of climate-related risks and opportunities.	a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a. Describe the organization's processes for identifying and assessing climate-related risks.	a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
a. Describe management's role in assessing and managing climate-related risks and opportunities.	a. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	a. Describe the organization's processes for managing climate-related risks.	a. Disclose scope 1, scope 2, and if appropriate, scope 3 GHG emissions, and the related risks.
Recommendations are from the most recent 2017 TCFD report titled, "Recommendations of the Task Force on Climate-Related Financial Disclosures."	a. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	a. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	a. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Conclusion

The new "California Climate Accountability Package" will have GHG emissions and climate risk reporting implications for companies doing business in California with annual revenues exceeding the established thresholds. For suppliers of those companies that may not meet the criteria for required reporting, this package of legislation may still lead to new requests from customers. For companies seeking to understand their emission profiles, calculating scopes 1 and 2 GHG emissions is a good place to start.

For more information on how to navigate California's Climate Accountability Package, contact Pinion.

About Us

Pinion is a business advisory provider, 'U.S. Top 100' accounting firm, and global leader in food and agriculture consulting. With roots dating back to 1932, the firm aims to deliver increased value and growth for clients through its specialized advisory in the areas of sustainability, farm programs, land and water management, financial management, succession planning, government affairs, and business strategy.

Dedicated to sustainability program success – from small food and agriculture operations to large industry leaders – Pinion develops measurable and actionable sustainability programs that are scaled to satisfy the unique needs of each operation. Pinion's sustainability advisors create customized solutions that meet the standards, reporting needs, and programmatic execution required to attain business goals and maximize sustainability impact.

Note: This is a live document and subject to change. All data included is reflective of legislature at the time of publishing and will be updated as further information is released. ***Updated on: March 27, 2025***

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