Corporate Sustainability Update

August 2025

Recapping CARB’s Second Public Workshop for California’s Climate Disclosure Laws

On August 21, 2025,the California Air Resources Board (CARB) hosted its second public workshop to preview and solicit public feedback on proposed definitions and concepts underpinning rules for the Climate Corporate Data Accountability Act (SB 253) and the Climate-Related Financial Risk Act (SB 261). During the workshop, CARB proposed alternative definitions of “revenue,” “doing business in California,” and parent-subsidiary relationships, introduced a flat annual fee structure to fund both programs, and provided additional insight into implementation of each law. Thompson Hine partners Jurgita Ashley, Heidi B. Friedman and Tanya C. Nesbitt, along with senior counsel Kim Sim Sandell and associate Matthew N. Leder summarize key updates and relevant insights from the workshop below.

Overview of California’s Climate Disclosure Laws

In October 2023, California enacted two landmark climate disclosure laws, SB 253 and SB 261, now codified as California Health and Safety Code § 38532 and § 38533 respectively. Both direct CARB to promulgate implementing regulations, which are expected to be publicly release by mid-December.

SB 253: Climate Corporate Data Accountability Act

SB 253 requires companies “doing business in California” with total annual revenues of $1 billion or more to disclose annually Scope 1 (direct), Scope 2 (indirect from energy), and Scope 3 (other indirect) greenhouse gas emissions in alignment with the Greenhouse Gas Protocol. SB 253 mandates third-party assurance of reported greenhouse gas emissions data and public disclosure.

SB 261: Climate-Related Financial Risk Act

SB 261 applies to companies “doing business in California” with total annual revenues of $500 million or more. Covered entities must “prepare a climate-related risk report” that discloses the entity’s “climate-related financial risk” aligned with the Task Force on Climate-Related Financial Disclosures (TCFD), IFRS, or another approved framework every two years. Reports must be posted on the company’s website and submitted to a public docket, which will open on December 1, 2025, and close July 1, 2026. The first reports are due January 1, 2026.

SB 219: Amendments

In 2024, Senate Bill 219 amended both SB 253 and SB 261 to clarify that CARB will set a schedule for Scope 3 emissions disclosures beginning in 2027 and to provide for entities to report on a parent-level consolidated basis.

For additional information on the law’s requirements, please see our client alert: *Update on California’s Climate Disclosure Rules: Key Takeaways From CARB’s May 29 Workshop*.

Key Insights from CARB’s Second Workshop

- **Definitions revised:** CARB proposed new definitions of “revenue,” “doing business in California,” and parent-subsidiary relationships after receiving feedback that earlier drafts were overly broad.
- **Flat annual fee previewed:** To fund both programs, CARB proposed annual fees of $3,106 for SB 253 entities and $1,403 for SB 261 entities.

- **Timeline confirmed:** CARB proposed June 30, 2026, as the deadline for Scope 1 and Scope 2 emissions reporting (covering FY 2025 data) with limited assurance. Draft reporting templates are expected within the next two weeks.
- **Good-faith reporting:** CARB clarified that initial SB 261 reports due January 1, 2026, will be evaluated on a "good-faith" basis using the best available data, resources and knowledge.

Alternative Definitions Proposed by CARB

During the workshop, CARB previewed alternative definitions of "revenue," "doing business in California," and parent-subsidiary relationships following recent feedback from the public.

Revenue

CARB initially relied on "gross receipts" as defined in California Revenue and Taxation Code (RTC) § 25120(f)(2) to determine whether an entity exceeds $500 million and/or $1 billion in annual revenues under each law. Commentors argued that this definition was too expansive and created confidentiality and verification challenges. In response, CARB proposed defining revenue as "the total global amount of money or sales a company receives from its business activities, such as selling products or providing services." CARB's proposed definition of revenue does not deduct operating costs or other business expenses. During the workshop, some commentators sought clarity on how CARB's definition would apply to financial institutions and entities that do not sell goods or services.

Doing Business in California

During CARB's initial public workshop in May, the agency originally proposed using the definition of "doing business" in RTC § 23101 with slight modifications. Following concerns that this would capture companies with minimal ties to California, CARB is now proposing to use the Secretary of State's Business Entity database, which lists entities with a designated agent for service of process in the state. In the coming weeks, CARB plans to release a list of entities it believes are covered, based on revenue thresholds applied to this database. Companies will remain responsible for compliance even if they are not on CARB's initial list or outreach.

Parent-Subsidiary Relationships

CARB continues to refine how reporting obligations will apply within corporate structures. It is considering the use of commercial databases cross-referenced with the Secretary of State's Business Entity database and/or the Franchise Tax Board's database. CARB is also exploring a voluntary self-reporting process to help companies facilitate consolidated parent-level reporting. Questions remain about reporting mechanics for foreign parent companies and California-based subsidiaries.

Exemptions

CARB proposed exemptions for nonprofits, government entities, and companies whose only California connection is remote employees.

Flat Annual Fee Structure

CARB is proposing a uniform fee for each program, calculated by dividing program costs by the number of covered entities:

$$Annual\ Program\ Fee = \frac{Annual\ Program\ Cost}{Number\ of\ Covered\ Entities}$$

Based on current estimates, SB 253 entities would pay $3,106 annually, while SB 261 entities would pay $1,403 annually. Fees would apply to all covered entities regardless of consolidated parent-level reporting or biennial filing requirements.

Guidance on SB 253

CARB proposed a June 30, 2026, deadline for Scope 1 and 2 disclosures covering FY 2025. Only limited assurance will be required initially, but assurance providers must be systematic, independent, and free of conflicts of interest. CARB failed to address how verification letters and assurance will be provided as part of reporting. Draft reporting templates are expected by the end of September.

Guidance on SB 261

During the workshop, CARB clarified that climate-related financial risk reports must align with an established disclosure framework such as Task Force on Climate-Related Financial Disclosures (TCFD), IFRS S2, or another disclosure framework developed by any regulated exchange, national government, or other governmental entity. Reports also must be predicated on the following principles:

- **Governance** – describe the organization's governance structure for identifying, assessing, and managing climate-related financial risks. Details should include management oversight of climate-related risks and opportunities and provide a description pertaining to Board oversight of those climate-related risks and opportunities.
- **Strategy** – describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning. This includes describing:
    a. the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
    b. The impact of climate-related risks and opportunities on the organization's operations, strategy, and financial planning.
    c. The resilience of the organization's strategy, taking into consideration the future impacts of climate change under various climate scenarios.
- **Risk Management** – describe the process the reporting entity uses for identifying, managing and assessing climate-related risks, and how those considerations and processes are integrated into the organization's overall risk management.
- **Metrics and Targets** – disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

In addition, each report must disclose which framework is applied, the recommendations and disclosures that have not been complied with, and an explanation of the reasons why certain recommendations and/or disclosures have not been included and any plans for future disclosures.

For initial reports due January 1, 2026, CARB stated that a "good faith" effort will be demonstrated by using an entity's most recently available data, resources, and knowledge. Specifically, quantitative climate scenario analyses and Scope 1, 2, and 3 emissions metrics as a component of TCFD are not required. However, to the extent an entity has such data, it is expected to be included in initial reports.

CARB Enforcement

At the conclusion of the workshop, CARB emphasized that it may audit assurance and reporting activities, review information from entities and third-party providers, and take enforcement action where necessary.

Looking Ahead

CARB continues to advance SB 253 and SB 261 on an accelerated regulatory timetable despite ongoing constitutional challenges. On August 13, 2025, the Central District of California denied a preliminary injunction and issued an Order in *Chamber of Commerce of the United States, et al v. California Air Resources Board, et al.*, No. 2:24-cv-00801 (C.D. Cal. Jan. 30, 2024)) denying Plaintiffs' motion for preliminary injunction on the grounds that the laws violate the First Amendment of the Constitution by compelling speech. On August 20th, Plaintiffs filed a notice of appeal to the Ninth Circuit Court of Appeals and moved for an injunction pending appeal. The Court is scheduled to have a hearing on Plaintiffs' motion for an injunction pending appeal on September 15, 2025.

Meanwhile, in the coming weeks, CARB will release its list of potentially covered entities and drafts of its Scope 1 and Scope 2 emissions reporting templates. It remains to be seen how the agency will address definitional precision, practical constraints, and complex corporate reporting structures.

Thompson Hine's Corporate Sustainability group will continue to follow regulatory and legal developments in CARB's rulemaking process and provide timely updates.

FOR MORE INFORMATION

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