California Climate Disclosure Laws: CARB Releases Clarifying Guidance for Inaugural Climate Risk Reports Due January 1, 2026

Posted in: California Climate Disclosure Laws
Posted on: September 3, 2025

Draft written guidance is consistent with (but offers little additional insight beyond) CARB's proposals for minimum climate-related financial risk reporting requirements under SB-261 discussed at August 21 workshop

On September 2, 2025, the California Air Resources Board (CARB) posted a six-page draft guidance document (presented by CARB as a "checklist") outlining CARB's expectations for minimum climate-related financial risk disclosures intended to assist in-scope companies in complying with SB-261, the state's landmark corporate climate-related financial risk reporting program.

SB-261 requires public and private U.S. companies (other than insurance companies) that "do business" in California with total annual revenue in the prior fiscal year ***exceeding $500 million*** to publicly disclose, on a biennial basis (i.e., once every two years), climate-related financial risks and the measures they have adopted to reduce and adapt to such risks in accordance with the framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD), or an equivalent reporting framework. A "climate-related financial risk" is defined as the material risk of harm to immediate and long-term financial outcomes due to physical and transition risks. The first TCFD-compliant climate-related financial risk report must be posted to the company's website by ***January 1, 2026***, with biennial updates thereafter. Companies must then post the location of their public link to their first report on CARB's public docket, which CARB plans to open on December 1, 2025 and close on July 1, 2026. For more information, see our client alert, which includes a tabular summary of the law's key provisions.

The draft written guidance provides limited new information, primarily serving to reiterate and formalize the guidelines and recommendations on climate risk reporting that CARB staff has previously conveyed, including at its second public workshop held on August 21 (which we previously discussed here), in the July 9 implementation FAQs (previously discussed here) and during its first public workshop held on May 29 (previously discussed here).

According to CARB, the draft guidance "is intended to be used as a starting point for reporting entities; understanding that [the] statute outlines a reporting entity's compliance options and that a company's climate related financial risk report may be more detailed than what is outlined in CARB's draft guidance, depending on the company and their circumstances." CARB further emphasizes that the draft guidance, unlike the statute, "does not have the force of law" and "is subject to change without notice."

CARB is seeking stakeholder feedback on this draft guidance. CARB has opened a public docket and will accept written comments through September 11. Interested parties may also contact CARB with questions and comments at climatedisclosure@arb.ca.gov (input received via email will be posted to the public docket). For additional information and resources, see CARB's California Climate Disclosure Laws Landing Page.

Exempt Entities

The draft guidance reaffirms that SB-261 exempts business entities subject to regulation by the California Department of Insurance or in the business of insurance in any other state.

Calendar Year vs. Fiscal Year Data

Because the statute is silent on whether companies should use calendar year or fiscal year data when preparing climate risk reports under SB-261, **the draft guidance clarifies that either is acceptable**. CARB's July FAQs state that **companies should use the most recent/best available data for their first report due by January 1, 2026**: *"To provide a phase-in period for reporting, climate-related financial risk disclosures made pursuant to the upcoming statutory deadline (January 1, 2026) may be based on the best available information, including information from fiscal years 2023/2024 or 2024/2025."*

In response to a question posed at the August 21 workshop, CARB staff confirmed that **fiscal 2024 data can be used for the initial round of SB-261 reporting—i.e., it would satisfy "good faith" compliance efforts—if that is the best and most recent data available**. On other occasions during the workshop, staff said "***we would love to see the most recent data available for the company"*** and ***"the basic rule of thumb is to use the most recent available data."***

Substituted Compliance

The draft guidance specifies that companies do not need to prepare a separate (standalone) report pursuant to SB-261 if they make publicly available (on their own website and on CARB's public docket), on at least a biennial basis, climate-related financial risk disclosures that meet the statutory requirements.

Parent-Subsidiary Relationships

The draft guidance reiterates that climate-related financial risk reports may be consolidated at the parent company level. **If a subsidiary of a parent company qualifies as a covered entity under SB-261, the subsidiary is not required to prepare a separate climate-related financial risk report if the parent company is reporting on its behalf**. (Note, however, as discussed at the August 21 workshop, that under CARB's proposed fee regulation, the statutorily mandated annual implementation and administration fee would be payable by each in-scope subsidiary separately even if the subsidiary is covered by a parent company report. CARB's preliminary estimate of the annual fee for SB-261 covered companies is $1,403.)

Proposed Minimum Climate Risk Reporting Requirements

Reporting Frameworks

SB-261 allows some flexibility in choosing a reporting framework, and CARB advises that companies should then apply the principles embedded in their chosen framework.

In-scope companies may use one of the following frameworks to meet SB-261 disclosure requirements:

- The Final Report of Recommendations of TCFD (June 2017);
- The International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board (IFRS S2) (which leverage the TCFD framework); or

- A report developed in accordance with any regulated exchange, national government or other governmental entity, including a law or regulation issued by the U.S. government.

Each report submitted to CARB should:

- Contain a statement on which reporting framework is being applied;

- Discuss which recommendations and disclosures have been complied with and which have not; and

- Provide a short summary of the reasons why recommendations/disclosures have not been included as well as discussion of any plans for future disclosures.

As a general matter, CARB's draft guidance highlights the following (emphasis added):

> "Details regarding what a reporting entity should disclose in each section will vary depending on the company, the discretion of the preparers and the chosen reporting framework. **A key guiding principle in preparation of these reports should be meeting the needs of the users of the biennial reports. Reporting entities should focus on disclosing climate-related financial risks, and measures adopted to reduce and adapt to climate-related financial risk, that are material to their operations and financial outlook, using the lens of decision-usefulness for investors and other stakeholders. Disclosures should reflect a company's effort to assess and communicate risk**.
>
> "Note that some of the frameworks, outlined in [the statute], may have supplemental guidance for particular sectors. In contrast, this document is intended for general use and is intended to be a baseline for the information provided by reporting entities in their reports. As such, CARB's recommendations are largely based on TCFD (2017)."

CARB also encourages that its draft guidance be read in addition to recommendations and reporting guidance made available by the TCFD and/or the IFRS S2, depending on which reporting framework is chosen by the reporting entity. Links to the following existing resources are provided, which CARB notes contain detailed descriptions and opportunities for analysis beyond what is described in its draft guidance:

- TCFD's Reporting Climate-Related Financial Information: Critical Introductory Materials

- TCFD-aligned disclosure for the UK public sector: Application guidance
- IFRS S2 Climate-related Disclosures
- IFRS Comparison of IFRS S2 and TCFD Recommendations

Principles

At a minimum, CARB expects companies to provide in their SB-261 reports the climate-related financial risk disclosures outlined below. Four overriding principles underpin these disclosures—governance, strategy, risk management, and metrics and targets—informed by the TCFD (2017) and IFRS S2 frameworks.

- **GOVERNANCE**

The draft guidance notes that SB-261 "requires reporting on 'climate-related financial risk' and 'measures adopted to reduce and adapt to climate-related financial risk.' In disclosing 'climate-related financial risk,' both the TCFD and IFRS S2 frameworks start with governance accountability."

<u>CARB Minimum Disclosure Requirements: Governance</u>
Describe your organization's governance structure, if any, for identifying, assessing and managing climate-related financial risks. Details should: • Include discussion of any management oversight of climate-related risks and opportunities; and • Provide a description pertaining to board oversight of those climate-related risks and opportunities (if the reporting entity has a board).

- **STRATEGY**

The draft guidance notes that, "[a]s climate-related risks and opportunities increasingly shape economic realities, disclosing the actual and potential impacts of these risks on a company's strategy has become essential for investors and stakeholders. Both the TCFD and IFRS S2 frameworks recommend the use of **climate scenarios** to support disclosure of an entity's climate-related financial risk strategy."

Consistent with commentary by CARB staff at the August 21 workshop, the draft guidance states that CARB has received stakeholder feedback that conducting scenario analysis as a detailed ***quantitative*** exercise may be unduly burdensome for some reporting entities. As such, **in the initial year of reporting (for the first SB-261 reports due in 2026), companies would not be expected to include *quantitative* disclosure of climate scenario analysis as part of strategy reporting**.

However, companies "are expected to discuss the resilience of their strategy in the context of future climate change," which discussion may be ***qualitative*** in nature: *"Where a qualitative scenario-based assessment is feasible and relevant for a particular company, CARB encourages its inclusion."*

CARB Minimum Disclosure Requirements: Strategy
Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning (where material). This includes describing: • The climate-related risks and opportunities the organization has identified over the short, medium and long term. • The impact of climate-related risks and opportunities on the organization's operations, strategy and financial planning. • The resilience of the organization's strategy, if any, taking into consideration the future impacts of climate change under various climate scenarios. The discussion regarding climate scenarios may be ***qualitative*** in nature.

Note on materiality: For strategy reporting, the draft guidance advises that companies should consider materiality in the context of their respective reporting frameworks. For example, in determining whether information is material, CARB's draft guidance refers to the TCFD's guidance on materiality for companies reporting under that framework. **TCFD (2017) provides that "organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings."** Companies using a different reporting framework for SB-261 compliance should refer to their chosen framework's guidance.

- **RISK MANAGEMENT**

The draft guidance notes that "[e]ffective risk management is a foundational element of any credible climate-related financial disclosure regime." Risk management disclosures under SB-261 should "not only describe climate-related financial risks but also disclose how those risks are managed and integrated into the company's business practices. Transparent risk management disclosures can help support investor and stakeholder confidence by helping users understand whether climate risks are being managed proactively and consistently across the organization."

<u>CARB Minimum Disclosure Requirements: Risk Management</u>

Describe how the reporting entity identifies, assesses and manages climate-related risks including a description of:

- The processes 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**

The draft guidance notes that, "[w]hile narrative disclosures help identify risks and strategies, metrics and targets provide stakeholders with decision-useful, comparable and forward-looking information about the organization's exposure to climate risks and opportunities, and how it is responding."

Consistent with commentary by CARB staff at the August 21 workshop, the draft guidance states that, although various reporting frameworks note that the inclusion of Scopes 1, 2 and 3 emissions reporting may be disclosed in the discussion of metrics and targets if appropriate, CARB has received stakeholder input that gathering this data may not be feasible for many reporting entities by the initial January 1, 2026 reporting deadline and/or may be duplicative with the requirements of SB-253 (which requires annual GHG emissions reporting). As such, **in the initial year of reporting (for the first SB-261 reports due in 2026), companies would not be expected to include Scopes 1, 2 and 3 GHG emissions metrics as part of metrics and targets reporting**. Companies also reporting under SB-253 would still be required to disclose emissions information pursuant to SB-253. (Though not stated in the written guidance, CARB staff noted during the August 21 workshop that if a company is already collecting this emissions data, then it should be included in the company's SB-261 report, to the extent the use of such data is material to the company's management of its climate-related risks.)

<u>CARB Minimum Disclosure Requirements: Metrics and Targets</u>

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities adopted to reduce and adapt to climate-related risk, where such information is material.

Note on materiality: For metrics and targets reporting, as for strategy reporting, the draft guidance advises that companies should consider materiality in the context of their respective reporting frameworks. For example, in determining whether information is material, CARB's draft guidance refers to the TCFD's guidance on materiality for companies reporting under that framework. **TCFD (2017) provides that "organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings."** Companies using a different reporting framework for SB-261 compliance should refer to their chosen framework's guidance.

CARB's draft guidance also notes that SB-261 provides that "to the extent a climate-related financial risk report contains a description of a covered entity's greenhouse gas emissions or voluntary mitigation of greenhouse gas emissions, the state board may consider the covered entity's claims if those claims are verified by a third-party independent verifier."

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