CADWALADER

Governor Newsom Signs Twin Climate Disclosure Bills Into Law

October 17, 2023

By Zack Schrieber
Associate | Global Litigation

By Timbre Shriver
Associate | Global Litigation

On October 7, 2023, Governor Newsom passed Senate Bills 253 and 261 into law, which significantly expand California companies' disclosure requirements concerning greenhouse gas emissions and climate-related financial risks.

Last month, **we covered Senate Bill 253** (California Climate Corporate Data Accountability Act), which mandates the disclosure of carbon emissions Scope 1 and 2 emissions beginning in 2026, and Scope 3 emissions beginning in 2027.

Senate Bill 261 (Greenhouse Gases: Climate-Relate Financial Risk) requires California companies with revenues in excess of $500 million to file biannual disclosures pertaining to financial risks resulting from climate change. First, companies covered under the legislation are required to prepare a climate-related financial risk report beginning after January 1, 2026, disclosing the "material risk of harm to immediate and long-term financial outcomes due to physical and transition risks" in accordance with the recommended framework in the **Final Report of Recommendations** published by the Task Force on Climate-Related Financial Disclosures, or an equivalent set of climate reporting guidelines. Second, a covered company must also disclose any measures it has undertaken to "reduce and adapt" to the climate-related financial risks it disclosed in its report.

SB 261 exempts subsidiaries from preparing an independent report so long as the parent company prepares a consolidated disclosure encompassing its subsidiary entities. Additionally, the climate-risk disclosures are required to be made available to the public on the company's website. Companies are also required to pay a yet undetermined fee upon filing the report for the administration and costs of implementing the SB 261 requirements. Failure to comply with the reporting requirements could result in a penalty of up to $50,000 per year.

Taking the Temperature: California continues to take the lead in the United States in the push for transparency and disclosures related to carbon emissions and climate risks, and this legislation may serve as a model for other states to implement their own similar disclosure requirements. As we have previously discussed, many large companies are likely already collecting and preparing to report (or actually reporting on) these metrics, consistent with regulations in Europe and Asia and the SEC's proposed regulation. For others, the new legislation may require additional, and potentially significant, resources to ensure compliance when the reporting requirements take effect in January 2026. However, the implementation and enforcement of this legislation is likely to continue to take shape over the next few years as companies and government officials prepare for the legislation to take effect.