California Mandates Climate Risk Disclosure

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Earlier this month, California's governor signed two new climate-related disclosure laws applying to large public and private companies doing any business in the state. This has rippling implications for companies across the country and globally, as many operate in California.

The Climate Corporate Data Accountability Act mandates the disclosure of Scope 1, 2, and 3 emissions by companies with at least $1 billion in revenue. The Act requires the California Air Resources Board to adopt regulations guiding companies' disclosure of all scopes of emissions by January 1, 2025, with the first disclosures of Scopes 1 and 2 due in 2026 and the first disclosures of Scope 3 due in 2027. Assurance by a third party will be required for all Scopes.

The Climate-Related Financial Risk Act mandates the disclosure of climate-related risks and risk management measures by companies with at least $500 million in revenue (although it doesn't apply to companies regulated by the CA Department of Insurance) that have operations in California. Companies are expected to disclose inline with the Task Force on Climate-Related Financial Disclosure recommendations, including their exposure to both physical and transition risks. Companies must begin reporting by January 1, 2026 and must report every two years thereafter.

Both acts include fees associated with reporting as well as potential fees for noncompliance.

While the SEC has yet to adopt its final climate disclosure rules or release an updated timeline for their adoption, a large swath of US and global companies must now prepare to implement California's climate-related disclosure requirements beginning in 2026. While many expect these rules to face legal changes, they will have significant far-reaching impacts on companies, and in turn CRE, once finalized. These rules are more comprehensive than the SEC's proposed climate disclosure rules, as they mandate that companies report on all of their emissions including Scope 3, although Scope 3 does have a slightly delayed implementation timeline and some leniency in terms of assurance requirements.

Companies' real estate assets are among the most critical aspects of climate-related disclosures, including both those covered in the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act. On-site operations and electricity usage are responsible for both Scope 1 and 2 emissions, suggesting that corporate tenants, as well as owners, will be increasingly focused on understanding their building's emissions. Likewise, emissions in buildings of companies across the supply chain will also be under increased scrutiny due to the Scope 3 requirements. This could pave the way for growing cooperation between tenants and owners when it comes to sharing utility information.

Likewise, the Climate-Related Financial Risk Act cited the TCFD recommendations and in its 2021 Guidance on Metrics, Targets and Transition Plans, the TCFD's sample metrics related to physical risk include the proportion of property in areas with high exposure to flooding, heat or water stress. The TCFD also recommends including scenario analysis in climate risk disclosures. The California

disclosure mandates join the global push for detailed, facility-level disclosure on corporate exposure to acute events and chronic stresses with material business impacts. This in turn, will contribute to the growing demand for understanding real estate assets' forward-looking exposure to climate hazards across multiple scenarios to improve transparency and risk management across the financial system.

Table 1: Comparison of US climate risk disclosure proposals and mandates

	SEC Proposal (as proposed in 2022)	**Biden's Disclosure Proposal for Federal Contractors**	**California Emissions Reporting Law**	**California Risk Disclosure Law**
Title	The Enhancement and Standardization of Climate-related Disclosures for Investors	Federal Supplier Climate Risks and Resilience Rule	Corporate Data Accountability Act (SB 253)	Climate-Related Financial Risk Act (SB 261)
Target	Public firms doing business in the US	Federal contractors	Public and private firms doing business in California that generate at least $1 billion in revenue	Public and private firms doing business in California that generate at least $500 million in revenue
Emissions disclosure requirements	Scope 1 and 2. Scope 3 only if "material" or if registrant had set a target or goal including Scope 3 emissions	Scope 1 and 2. Scope 3 only for major contractors in receipt of at least %50 million from the US government	Scope 1, 2 and 3	N/A
First Reporting Year	2024 for the largest companies	Phasing in, starting one year after the publication of the final rule	2026 for Scopes 1, 2 and 2027 for Scope 3	2026
Requires climate-related financial risk disclosure?	Yes	Yes, for major contractors in receipt of at least $500 million from the US government	N/A	Yes
Requires third-party verification?	Yes, for large accelerated filers, and only for Scopes 1 and 2	Yes, for major contractors only	Yes, with digital platform for public access	No

Source: Adapted from PBS Newshour Analysis: The Potential Global Impact of California's New Corporate Climate Disclosure Laws