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2023 California Climate Disclosure Laws FAQ

Climate claims, goals and offsets
Scopes 1, 2 and 3 greenhouse gas (GHG) emissions

What is the VCMDA?

Effective January 1, 2024, Assembly Bill 1305, the **Voluntary Carbon Market Disclosures Act (VCMDA)**, requires public and private companies operating in California to provide annual website disclosure to support claims about the climate performance of their business or products, or climate goals. The law also imposes new obligations for companies that purchase and sell offsets within California.

Which companies are impacted by the VCMDA?

1. **It applies to companies that "operate" in and make covered climate claims "within" California** (which isn't clearly defined and may be broadly interpreted).
2. There's no **revenue threshold.**
3. Additional obligations apply to companies that purchase offsets or sell/market offsets in California.

What are some key aspects of the VCMDA?

Disclosure related to climate claims: Companies that set goals or make claims regarding **net zero**, the climate performance of the **company or one of its products**, or **significant emissions-reduction** achievements must provide annual website disclosure on:

- How a "carbon neutral," "net zero" or similar claim was determined to be accurate or accurately accomplished.
- How interim progress toward goals is being measured.
- Whether data and claims have been subject to third-party verification.

Offset buyer disclosure: If a company making the above claims also **purchases or uses voluntary carbon offsets** sold within California, the website must additionally provide information regarding each offset purchase, including:

- Offset type (e.g., avoided emissions or carbon removal) and project details.
- Protocols used to estimate emissions reductions or removal benefits.
- Any third-party verification of company data and claims listed.

Offset seller disclosure: Entities that market or sell offsets within California are required to annually disclose information such as:

- Characteristics of each offset project, including offset types and protocols.
- Annual updates on emissions achievements.
- Data necessary for verifying claims.
- Any third-party verification of project attributes.

What is the CCDAA?

Senate Bill 253, the **Climate Corporate Data Accountability Act** (CCDAA), requires disclosure of and independent third-party assurance on all GHG emissions – Scopes 1, 2 and 3 – for large private and public companies with total annual revenues exceeding $1 billion and qualify as "doing business" in California. However:

- **"Doing business" in California** is not yet defined – but it is expected to be broad.
- **"Total annual revenue"** threshold needs to be clarified by the California Air Resources Board, which is required to adopt regulations for the annual reporting process by January 1, 2025.

When do companies need to publish GHG emissions under the CCDAA?

Companies will be required to report their direct and indirect purchased energy (Scopes 1 and 2) emissions beginning in 2026. Reporting for indirect, full value chain (Scope 3) emissions would not begin until 2027.

Will GHG emissions disclosures need to be verified?

Yes. Third-party assurance for emissions reporting, starting with a limited assurance level, is required as of 2026 for Scopes 1 and 2 emissions, and will move to the more stringent reasonable assurance level in 2030. Assurance engagement for Scope 3 emissions must be performed at a limited assurance level in 2030.

- **"Limited assurance"** is the baseline level of assurance, where an independent auditor obtains sufficient and appropriate evidence, limiting assurance to specific aspects of the reporting.
- **"Reasonable assurance"** is the highest level of assurance – it's more rigorous and intensive, requiring evidence to demonstrate the reporting is free of material misstatements.

What is the CRFRA?

Senate Bill 261, the **Climate-Related Financial Risk Act** (CRFRA), requires large private and public companies that have total annual revenues exceeding $500 million and qualify as "doing business" in California to publish biennial climate-related financial risk reports, disclosing climate-related financial risk built upon Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, and measures adopted to mitigate and adapt to the disclosed risks.

- **"Climate-related financial risk"** includes all material risk of harm to immediate and long-term financial outcomes due to physical and transition (e.g., market, technology and regulation) risks.
- Similar to the CCDAA, **"doing business" in California** and the **"total annual revenue"** threshold are not yet defined, but they are expected to be broad.

When do companies need to report under the CRFRA?

Initial reports must be published before January 1, 2026. Reports are required every two years after the initial report.

My company is not subject to these new reporting requirements – will we still be impacted?

Even if your company is not covered by the California climate rules, we expect to see an increase in emissions data requests and diligence questionnaires from large companies to their suppliers and vendors in connection with their own compliance.

What can companies do to prepare for the three new California climate laws?

1. **Conduct an inventory of climate-related claims, goals and offset purchases.**
2. **Assign internal responsibility for climate oversight** – this often involves setting up a cross-functional committee of management team members from operations, legal and finance.
3. **Extend climate governance beyond sustainability reporting** to cover matters such as target setting, product marketing and offset purchases.
4. **Establish controls for climate reporting**, including related data governance and disclosure controls.
5. **Identify appropriate outside advisers** – including the right emissions accounting firm for a given business and industry – to gather emissions data and prepare audit-ready GHG emissions disclosure.

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