

California Law Highlights the Need to Prepare for Climate Disclosures

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The march toward mandated corporate disclosures for climate-related risks continues. Despite significant pushback and substantial legal challenges, state legislatures and regulators are continuing to advance laws and rules that will require disclosures of both greenhouse gas (GHG) emissions and climate risks.

California [Senate Bill \(SB\) 219](#), signed into law on September 27, 2024, by Governor Gavin Newsom, is one of the latest examples. The law's only true substantive effect was to give the California Air Resources Board (CARB) a six-month reprieve (until July 1, 2025) to adopt regulations implementing California's wide-ranging and widely applicable climate disclosure laws ([SB 253](#), the Climate Corporate Data Accountability Act, and [SB 261](#), the Climate-Related Financial Risk Act; see our summary of the 2023 laws [here](#)). For public and private companies that "do business" in California and are subject to the requirements of the SBs 253 and 261, the newest law provided no delay for companies to meet the reporting deadlines, with GHG emissions and climate-related financial risks disclosures required starting in 2026. Given CARB's July 1, 2025 deadline to develop rules implementing the disclosure requirements, companies will have only six months to digest the new regulations before reporting is required. The California legislature declined to delay the initial reporting deadline despite [efforts](#) by Newsom to [institute a two-year implementation delay](#).

Opponents of climate disclosures, however, have not thrown in the towel and are fighting back. Like the Securities and Exchange Commission's (SEC) currently [stayed climate disclosure proposal](#) that would mandate climate disclosure for SEC-registered public companies, California's laws are being [challenged in court](#) and face an uncertain future. Political pressure surrounding climate disclosures has also been intense. At the federal level, Bloomberg [reported](#) that attorneys general from 43 states are parties to the legal challenge to the SEC rules. Legislation has also been introduced in both houses of Congress to jettison the SEC's rules. We expect outcomes of the 2024 U.S. presidential and congressional elections to play a significant role in the ultimate fate and scope of the SEC's rule. A Democratic victory could lead to an emboldened SEC, while a Republican victory would likely doom the SEC's climate rule.

Given California's political dynamics, the state's climate disclosure laws seem unlikely to fall to political pressure and will likely be implemented, except to the extent they may be curtailed by pending litigation. Additionally, as we have previously [reported](#), other U.S. states and foreign jurisdictions continue to take steps to require climate disclosures. In the European Union, the [Corporate Sustainability Reporting Directive](#) (CSRD) requires all large companies and all listed companies to disclose risks and opportunities arising from social and environmental issues and the impact of their activities on the environment. Additionally, in Canada, [guidance](#) from Canada's Office of the Superintendent of Financial Institutions requires federally regulated financial institutions to annually

disclose climate-related risks. And, on October 9, 2024, Canada's Department of Finance issued new [guidelines](#) that require climate-related disclosures from large, federally incorporated private companies. As such, even in the absence of U.S. federal laws or regulations on climate disclosure, state and international laws could pull multinational and national companies within the scope of disclosure requirements.

Despite the ESG backlash, the overall trend continues to see more and more companies facing climate reporting mandates, with increasingly detailed and extensive reporting requirements.

Our Recommendations in Light of Uncertain Disclosure Requirements

While companies may find themselves in the tough position of balancing the competing demands of investors favoring or opposing climate disclosures, a strategy of doing nothing is unlikely to satisfy anyone. Uncertainty notwithstanding, companies that could be subject to climate reporting rules, whether from the SEC, California, Canada, or the EU, will be well served to assess their capacity to respond to climate-related disclosure requirements and to determine whether they have the necessary infrastructure in place. Avoiding preparation could be ill-advised considering the heavy lift disclosures present under pending and proposed requirements.

The steps companies can take now to prepare for future climate disclosures include, among others:

- Understanding what disclosures may be required and socializing such requirements with internal and external stakeholders;
- Defining internal reporting structures and assigning responsibilities;
- Considering internal gap, materiality, and risk assessments related to potential disclosure requirements, as well as a plan to close any identified gaps;
- Analyzing disclosure controls and procedures, internal controls over financial reporting, and other internal control frameworks;
- Assembling a climate disclosure team, including legal and technical consultants, and identifying tools to gather required data and measure against a baseline;
- Identifying whether directors and management have the appropriate expertise and understanding of climate-related risks and financial disclosures;
- Assessing how the board of directors will oversee climate disclosures and reporting;
- Becoming familiar with climate reporting standards and emissions reporting organizations (e.g., [International Sustainability Standards Board](#) (formerly the Task Force on Climate-Related Financial Disclosures (TCFD)), [GRI Standards](#), [CDP](#));
- Assessing prior disclosures and publicly shared climate-related goals and targets;

- Mitigating greenwashing risks by ensuring climate-related marketing and other communications do not overstate climate accomplishments and the company is on track to meet publicly stated goals and targets;
- Monitoring the disclosures and actions of market peers; and
- Tracking developments of final and proposed climate disclosure requirements.

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