The California Air Resources Board this week released [draft guidance] for corporate climate-related financial risk disclosure, providing some insight into what large companies will be required to report beginning in January 2026. This is a quiet but fairly monumental step in climate risk disclosure in the US, and a reminder of the power of state governments to advance strong climate policy despite retrenchment at the federal level.

In 2023, California Senate Bill 261 (Stern) became law, creating the first mandatory corporate climate risk disclosure regime in the US. (CLEE's Dave Jones and I helped develop the legislation, building on our California Responsible Investment Roadmap report.) A companion bill, SB 253 (Wiener), created the first mandatory corporate emissions disclosure regime in the US.

SB 261 requires large companies (other than insurers) doing business in California to publicly report the climate-related financial risks they face–things like the long-term impact of drought on key crops and supply chains, or the risk of fossil fuel investments losing value over time. These are material financial risks to corporate financial health, shareholder value, and the broader state economy.

At the time, the Securities and Exchange Commission was developing a similar set of rules for companies within its purview (those that are publicly traded on US exchanges), which would have largely but not completely overlapped with SB 261. The law took account of this, noting that a company could satisfy its California reporting obligations by submitting its federal report. But, after the new administration took office, the SEC scrapped its proposal earlier this year–leaving California as the only US jurisdiction with a risk disclosure rule in place.

CARB's SB 261 guidance mostly restates and clarifies the statutory language, which is particularly appropriate in this case since the law does not create its own substantive reporting rubric; rather, it requires companies to select from existing, industry-standard reporting regimes that each have their own (similar) prompts and metrics. By pointing to these third-party standards (in particular those created by the Task Force on Climate-related Financial Disclosures and the International Sustainability Standards Board), SB 261 freed the state from having to develop its own reporting framework and, more importantly, did not require companies to develop a California-specific report if they already prepare a TCFD- or ISSB-compliant report.

Beyond describing the qualifying reporting frameworks, the guidance directs companies to:

- Select a reporting framework and provide a short summary of reasons if any of that

framework's recommended disclosure categories are not included in the report.
- Describe the company's climate-related financial risk identification, assessment, and management governance structure, including management and board oversight of both risks and opportunities.
- Describe the company's actual and potential material climate-related financial risks and opportunities to operations, strategy, and financial planning, including multiple time horizons and the resilience of organizational strategy in multiple climate scenarios.
- Describe the company's climate-related financial risk identification, assessment, and management process, including how that process fits within overall risk management.
- Describe the company's climate-related financial risk assessment and management metrics and targets

The guidance exhibits a degree of flexibility and understanding of the limits of climate risk disclosure. Many disclosure categories are limited to "material" risks (with definitions of materiality left to the independent reporting frameworks); responses related to governance and strategy are couched in the "if any" context, recognizing that reporting standards do not require adoption of particular policies or strategies, but simply disclosure of what has been adopted. The point of disclosure is to give financial actors more insight into corporate management and act accordingly, not to directly drive corporate decision-making. The guidance also acknowledges that Scope 1, 2, and 3 emissions reporting (which is part of the TCFD standard) may not be feasible within the first reporting deadline and may be duplicative of SB 253 requirements, so it is not currently required for SB 261 compliance.

Of course, the guidance is just the first step–what matters is how companies respond and what type of information the disclosures yield for the state and for investors. CARB is instructed to prepare a biannual summary report on the disclosures provided, which could result in either a fairly cursory review or a fascinating look at the state of disclosure practice and the risks facing the California economy. CARB also has the authority to penalize non-responders, although the agency may exercise significant discretion in that regard. And a set of business groups have challenged the two laws on First Amendment grounds on the basis that they compel speech–unlikely arguments, but a potential roadblock.

The disclosure standards arrive at a moment when the economic impacts of climate change are becoming unavoidably evident–from wildfire and flood devastation to rising food prices–while the federal government is abandoning any notion of a leadership role. They are an important step, both for investors and state leaders to build greater understanding of the financial risks we face, and to demonstrate the still-vital role of state-level climate action.