After months of discussion, the U.S. Securities and Exchange Commission (SEC) voted 3-2 to adopt climate reporting standards that will mandate publicly-traded companies disclose some of their greenhouse gas emissions. The SEC’s rule was proposed way back in 2022, and the initial draft would have required companies to disclose their “Scope 3” supply chain emissions, in addition to the “Scope 1” and “Scope 2” direct and indirect emissions the final rule includes. Those Scope 1 and Scope 2 emissions need only be reported to the extent they are “material,” further limiting which corporate emissions are subject to disclosure requirements.

The rule’s adoption comes months after California passed two landmark climate disclosure bills, SB 253 and SB 261, which require large companies doing business in the state to disclose their Scope 1, 2, and 3 emissions and their climate-related financial risk, along with plans to mitigate that risk. The bills were signed into law by Governor Newsom late last year but have been under fire since: The Governor’s January budget proposal lacked funding to implement the laws, and last month, the U.S. Chamber of Commerce, California Chamber of Commerce, and others sued to enjoin them.

As the debate around implementation of SB 253 and SB 261 has progressed, many have been watching the SEC rulemaking process carefully. In the end, the agency chose a middle road: Despite rumors the SEC might abandon the rule all together, it is requiring some climate disclosure—but its requirements are more limited than California’s both in terms of substance of the mandated disclosures and the number of companies they will impact. For one thing, requiring companies only to report emissions they deem “material” gives them significant flexibility to determine which of even their direct emissions they disclose, based on their own assessments of how “reasonable investors” would perceive the disclosure. And by ignoring Scope 3 emissions, the rule misses the full picture: For some companies, Scope 3 emissions represent a large portion of their greenhouse gas footprint and would not be generated but for the business’ existence, but still won’t be captured by the rule.

The upshot: California’s laws remain the strongest disclosure requirements in the nation.

That being the case, today’s action at the SEC underscores the need for California to forge ahead with the laws’ implementation. Understanding the scope and scale of corporate climate emissions and climate risk is critical. It helps the public, businesses, and government alike understand our progress towards our climate goals—and what will be needed to reach them. It provides much-needed transparency to consumers as businesses peddle climate-friendly images that, in some cases, amount to little more than greenwashing. And it creates opportunity for businesses to confront the real climate impacts they face and mitigate them in ways that benefit the economy, consumers, and the environment.

I’ll be carefully watching both California’s budget process and the Chamber lawsuit as the fight to implement these laws continues. And so will thousands of companies—many of which will need to begin thinking about compliance with the SEC rule even as the fate of California’s laws remain uncertain.