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California Board's Financial-Grade Climate Standards Raise Stakes

At its Aug. 21 workshop, the California Air Resources Board signaled that S.B. 253 and S.B. 261 — California's climate disclosure laws — will be enforced with standards comparable to financial reporting. Emissions data must be supported by assurance-grade systems, and climate-related financial risks must be overseen at the board level. CARB also indicated that reporting obligations will extend to entities connected to California through domicile or registration, raising new compliance considerations for corporate families.

Enacted in 2023, S.B. 253 requires covered entities to disclose greenhouse gas emissions, while S.B. 261 requires disclosure of material climate-related financial risks. At the August workshop, CARB clarified that compliance will require the same rigor as financial reporting: documented internal controls, independent assurance and board accountability. Climate disclosure is no longer aspirational — it is a legal obligation integrated into corporate governance and corporate structure.

This article examines CARB's interpretation of assurance and governance under S.B. 253 and S.B. 261, its position on parent and subsidiary reporting, and the practical steps companies should take to prepare.

CARB's Clarification: Climate Disclosure as a Compliance Obligation

At the Aug. 21 workshop, CARB confirmed that emissions disclosures under S.B. 253 will be phased in with defined assurance requirements. Beginning in 2026, Scope 1 and Scope 2 emissions must be supported by limited assurance, a review-level verification. By 2030, those disclosures must meet reasonable assurance standards, requiring audit-level confirmation. Scope 3 emissions, which include value chain activity, must be disclosed beginning in 2027, and later supported by limited assurance.

Building on this framework, CARB stressed that disclosures must be verifiable and independently reviewed. Climate data will no longer be treated as provisional or lightly scrutinized. Companies must maintain systems capable of producing complete, accurate and documented disclosures that withstand third-party verification. Assurance obligations will succeed only if companies adopt audit-ready processes comparable to financial reporting.

Beyond assurance, CARB also turned to how these rules will apply across corporate families. The agency indicated that it will rely on the California secretary of state's business records to determine whether an entity is subject to disclosure, covering both those domiciled in the state and those registered with agents for service of process.

CARB is also considering allowing a parent corporation to report on behalf of its subsidiaries. While this approach may reduce duplicative obligations, it underscores the need for consistent data governance and coordinated disclosure practices across business units.

Although the law provides for a phased timeline, CARB made clear that assurance standards remain central to compliance. Companies must implement financial-style controls, governance protocols and documentation practices to ensure defensibility. Failure to meet these standards may result in enforcement actions, investor scrutiny or litigation.

Governance and Oversight: Formalizing Board Responsibility

During the workshop, CARB also clarified how S.B. 261's governance requirements will be enforced. The statute assigns oversight of climate-related financial risk disclosure to boards of directors and executive leadership.

According to CARB, this responsibility must be reflected in governance structures, including board charters, executive roles and internal reporting lines. Delegating climate oversight to sustainability staff or treating it as an operational issue will not satisfy the statute. Companies must integrate climate risk into

enterprise risk management and demonstrate that it is reviewed at the highest levels of governance.

Disclosure teams should report directly to senior leadership, and governance documents must establish clear accountability. This interpretation elevates climate-related risk to the same category as other core business risks. Legal, compliance, finance and operations personnel must collaborate on disclosures, applying CARB's methodologies to ensure that reported risks are defensible in regulatory and enforcement contexts.

CARB's emphasis also reflects a global convergence of disclosure standards. The U.S. Securities and Exchange Commission has proposed climate disclosure rules that similarly require board-level oversight, while international frameworks such as the International Sustainability Standards Board and the European Union's Corporate Sustainability Reporting Directive demand integration of climate risk into financial reporting.

By aligning its approach with these frameworks, CARB is signaling that companies cannot treat California's requirements in isolation — they must be prepared for a regulatory landscape that is increasingly harmonized across jurisdictions.

What Regulated Companies Should Do Now

Companies subject to S.B. 253 and S.B. 261 should act now to align with CARB's clarified expectations. The first priority is evaluating whether existing reporting systems can support limited and reasonable assurance standards. Where data quality, internal controls or documentation fall short, remediation must begin well before compliance deadlines.

Engaging assurance providers early is also critical. The number of qualified firms is limited, and demand will increase sharply as deadlines approach. Companies that move quickly will have the opportunity to obtain preassurance assessments, identify gaps and implement corrective measures. Delaying engagement may result in higher costs, constrained provider capacity or an inability to complete required reviews.

Governance structures likewise require immediate attention. Boards and executives must ensure that climate oversight responsibilities are assigned, documented and operationalized. Compliance with S.B. 261 will demand more than nominal oversight. Companies must be prepared to demonstrate evidence of active, ongoing board-level engagement.

Climate disclosure should also be integrated into financial planning, audits and enterprise risk management. Regulatory, transition and physical climate risks must be evaluated alongside traditional financial risks to ensure consistency and defensibility.

Investors are closely monitoring these developments, and inconsistent or incomplete disclosures may create reputational harm. They may also give rise to securities law claims if disclosures are deemed misleading or materially deficient. Aligning climate reporting with financial filings and investor communications strengthens credibility and reduces litigation risk.

Finally, companies must establish procedures to monitor CARB's evolving rulemaking, as guidance will continue to develop in the coming months. By institutionalizing monitoring practices, companies will be better positioned to adapt quickly as requirements become more detailed.

Key Takeaways

CARB's Aug. 21 workshop confirmed that climate disclosure in California will be enforced with standards modeled on financial reporting. Emissions must be verifiable and assured, climate-related financial risk must reflect board-level oversight, and corporate families may need to coordinate reporting across parent and subsidiary entities. These are enforceable compliance obligations, not aspirational goals.

Companies that act now to implement assurance-grade systems, formalize governance responsibilities and secure assurance capacity will reduce risk, control their costs and position themselves for compliance. Those that delay may face limited provider availability, regulatory penalties or reputational harm.

With CARB's framework taking shape, climate disclosure now functions as both a legal mandate and a benchmark for corporate governance. For tailored guidance on California's climate disclosure requirements, please contact the author or any member of Frost Brown Todd's [Environmental Practice Group](#).

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