

California Climate-Related Financial Risk Reports Are Due January 1, 2026 – Are You Ready?

September 15, 2025

Both public and private U.S.-based companies (including U.S. subsidiaries of non-U.S. companies) that do business in California may need to publish and submit climate-related financial risk reports with the California Air Resources Board (CARB) in just a few months, with the final regulations are currently slated to be adopted in December 2025, just days before the first compliance deadline of January 1, 2026. Below are seven questions to help companies unpack the latest guidance, assess remaining open issues and determine how to prepare.

What is Required and When?

Each public and private U.S.-based company that is deemed to be a Covered Entity¹ must publish its climate-related financial risk report on the Covered Entity's website in a manner that is accessible to the public by January 1, 2026.

Each Covered Entity must provide a link to the report and post the link to the California Air Resources Board's (CARB) public docket, which opens on December 1, 2025. Although CARB has reiterated that all Covered Entities must post the report to their website before the January 1, 2026 deadline, CARB has provided a later deadline of July 1, 2026 for companies to submit their first reports to CARB via the public docket.

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¹ A Covered Entity is any business entity formed under U.S. law (federal or state) with total annual revenues in excess of \$500 million that does business in California. See below "How Do I know if I'm a Covered Entity?" for more detail.



Compliance Timeline Snapshot:*Initial Compliance Dates*

What	When
SB 261 Climate-Related Financial Risk Report	First report must be posted to the Covered Entity's website in a publicly accessible place by January 1, 2026 Link to report must be submitted to CARB's public docket before July 1, 2026
SB 261 Annual Fee Payment	First annual payment must be made on or before January 1, 2026

Ongoing Compliance Dates

What	When
SB 261 Climate-Related Financial Risk Report	Reports are required to be posted to the Covered Entity's website <u>every other calendar year</u> after the first submission Link to report must be submitted to CARB's public docket prior to the docket closing (closing dates for future years are still unknown)
SB 261 Annual Fee Payment	The fee required by SB 261 must be paid <u>annually</u> after the initial payment (on or before January 1 of each year)

Can Subsidiaries Rely on a Parent/Consolidated Report?

Under SB 219, climate-related financial risk reports may (but are not required to) be consolidated at the parent company level, meaning that a subsidiary entity that is a Covered Entity does not need to separately prepare a climate-related financial risk report if its parent submits a report (even if the parent is not a Covered Entity itself). Pending formal guidance from CARB, we recommend companies identify in any consolidated parent-level report each subsidiary that is a Covered Entity, in order to indicate compliance and facilitate CARB's review.

What we don't know: Currently, "subsidiary" is defined using the existing California Cap-and-Trade regulation as any business in which another company (the parent) owns more than 50% of its voting stock and has a different legal business name than the parent company. This means that non-wholly owned subsidiaries and certain joint ventures could be included. At the working group session on August 21, 2025, CARB acknowledged that there is still significant work to do in clarifying regulations relating to compliance for different parent/subsidiary fact patterns and encouraged outreach from companies who have situation-specific questions.

What is Required in the Report?

In general, the SB 261 Climate-Related Financial Risk Report must include disclosures about an entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk, covering (i) governance, (ii) strategy, (iii) risk management, and (iv) metrics and targets. For more information about the minimum requirements that CARB expects Covered Entities to comply with for this first year's report, please see their [FAQ](#) that was published on September 2, 2025.

While SB 261 sets forth a series of requirements about what must be included in the report, it also provides certain reciprocity options: a report will be deemed compliant with SB 261 if the disclosures are compliant with (i) the Final Report of Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) (June 2017 or later), (ii) the requirements set forth under the IFRS Sustainability Disclosure Standards, or (iii) any law, regulation or listing requirement issued by any regulated exchange², national government or other governmental entity that includes disclosure requirements consistent with SB 261 requirements.

CARB has confirmed that Covered Entities that already publish this disclosure in existing reports (e.g., in an Annual Report, Sustainability Report or Corporate Responsibility Report) may submit a link to that existing report in lieu of creating a new standalone report. However, the required disclosures must be easily accessible and identified in the existing report.

Additionally, each report must include (i) a statement on which reporting framework is being applied, (ii) a discussion of which recommendations and disclosures have been complied with and which have not (e.g., if a Covered Entity has selectively complied with some, but not all, parts of the TCFD framework), and (iii) a summary of the reasons why any required disclosures have not been included and a description of the steps

that the Covered Entity will take to prepare complete disclosures in the next report.

At the August working group session, in an effort to ease the burden on Covered Entities, CARB confirmed that, only for this first year's report:

- CARB will not require scenario analysis or quantitative information about GHG emissions in the context of metrics and targets disclosure, if such information is not yet available for this year. (There would still need to be an explanation, in accordance with the bullet above.) If it is available, then CARB still expects it to be included (even if the information is only qualitative).
- The report should include the most recent data available, even if such data is not for fiscal year 2025. Depending on a Covered Entity's circumstances, fiscal year 2024 data will be sufficient if that is the most recent data available. Covered Entities may also use calendar years instead of fiscal years for the report, if easier.

NEXT STEPS

Many companies already have existing climate-related financial risk disclosures, either in existing SEC filings or in reports published on the company's website. While some are voluntary, many non-U.S. companies are already reporting pursuant to pre-existing climate-related disclosure reporting requirements in non-U.S. jurisdictions (such as the EU and the UK). Such companies, including non-U.S. companies that are parent companies of Covered Entities and that intend to satisfy SB 261 requirements via a parent/consolidated report that includes climate-related disclosures prepared pursuant to home country requirements, should review their home country reports to ensure the disclosure requirements are consistent with SB 261 and determine whether any supplemental disclosures may be necessary.

² CARB has not clarified the scope, but we would expect this could include foreign exchanges as well.

Open issues: Although not explicitly clarified, CARB's statements seemed to suggest two years of reporting may not be required for this first year's report, as they are primarily focused on Covered Entities reporting their most recent data available.

How Do I Know if I'm a Covered Entity?

Under SB 261, any business entity formed under U.S. law (federal or state) with total annual revenues in excess of \$500 million and that does business in California is a Covered Entity.

Breaking this down:

Business Entity

Corporations, partnerships, limited liability companies, and other business entities are all potentially in scope. However, there are some exceptions, such as government entities and certain regulated insurance companies. CARB is also considering exempting certain companies, including (i) non-profit organizations and (ii) a company whose only business in California is the presence of teleworking employees. These proposed exemptions are not formalized in any guidance yet, and CARB is still soliciting comments on which categories of business entities should be excluded from being Covered Entities.

Formed Under U.S. Law

Covered Entities must be business entities that are formed under the laws of a state within the United States or under an act of the U.S. Congress. Any business entity incorporated or formed under laws outside the United States is not a Covered Entity. However, a U.S.-formed subsidiary of a non-U.S. parent company is expected to be deemed a Covered Entity if it satisfies the other requirements.

Total Annual Revenues

Total annual revenue is calculated using the Covered Entity's revenue for the prior fiscal year.³ In the working group session on May 29, 2025, CARB proposed defining "total annual revenue" as gross

receipts as set forth in the California Revenue and Taxation Code (RTC) Section 25120(f)(2). However, at the August working group session, CARB reported that it was proposing an alternative definition, due to feedback that "total annual revenue" was not suitable due to data confidentiality limitations and lack of verification methods, and that the definition was too expansive:

"Revenue is the total global amount of money or sales a company receives from its business activities, such as selling products or providing services."

CARB noted that this definition would not deduct operating costs or other business expenses from the revenue calculation, and is consistent with metrics used by major data tracking and reporting industries (e.g., S&P, Dunn & Bradstreet, and Data Axle).

However, this second definition proposal is also not finalized. CARB is currently soliciting feedback on which option (gross receipts pursuant to the RTC, or this new definition) works better for Covered Entities, and the final definition may still change. Similarly, how the definition applies to consolidated groups or multiple Covered Entities in a corporate organization has not been finalized.

NEXT STEPS

While the final definition is still being workshopped, business entities should consider calculating the total revenues for any Covered Entity under each definition. If either definition would result in the business entity being deemed to have more than \$500 million in total annual revenue based on the prior fiscal year (including sales by agents and independent contractors), then assume that you satisfy this prong of the Covered Entity test. Pending the final regulations, we would expect calculations would likely include consolidated subsidiary revenue of the Covered Entity as well.

³ CARB is still working to finalize the exact definitions and calculation formulas, but based on the discussions at the August 2025 working group session, we expect that the revenue would be

calculated at the U.S.-based company level, rather than at a non-U.S. parent company level.

Does Business in California

California's RTC already has a definition of "doing business in California," and CARB has proposed using the existing RTC definition (with slight tweaks):

- (i) *Any entity that is actively engaging in any transaction for the purpose of financial or pecuniary gain or profit and*
- (ii) *Any one of the following conditions is met during any part of a reporting year for such entity:*
 - *The entity is organized or commercially domiciled in California*
 - *Sales (as defined in California's RTC) for the reporting year of the entity in California exceed \$735,019 (including sales by an agent or independent contractor of the entity)*

Unlike the original iteration of the definition proposed at the May working group session, this revised definition omits the properties and payroll prongs of the RTC definition, citing complication and that those thresholds did not make a meaningful difference to their estimates of how many companies would be in scope. CARB is also exploring the viability of using existing databases of U.S.-based companies that would be used as a proxy for establishing which entities are "doing business in California." The current frontrunner being considered is the California Secretary of State Business Entity Database. However, CARB is still reviewing suggestions from commenters and there may be further changes to the final definition.

During the August working group session, CARB mentioned that there would be a form in the future that companies can submit with any questions or disputes about their Covered Entity status. It is unclear whether such form will be available before January 1, 2026, so for this first year of compliance, we would suggest that companies be ready to publish and submit their climate-related financial risk reports (in line with the reduced requirements for this first year) if there is a reasonable argument that they may be in scope.

NEXT STEPS

Companies should consider running their scoping analysis based on the modified RTC definition (calculation guidance is set forth in RTC Sections 23101, 25135, and 25136) to determine if they would be in scope. Treasury/tax departments at companies may already have this analysis.

CARB announced they would publish a non-exclusive preliminary list of companies they believe to be in-scope in early September, but such list has not yet been published as of the date of this memo. Companies will still be responsible for compliance with SB 261 even if they are not initially included on CARB's list or outreach efforts, so exclusion on these lists should not be viewed as a defensible reason for non-compliance. Until a final definition is formalized, companies satisfying the modified RTC definition and/or companies included on CARB's list should assume they are in scope.

How Much is the Fee Payment?

Each Covered Entity must pay the annual fee required by SB 261. As such, each in-scope subsidiary that is a Covered Entity will need to pay the fee every year, even if they share the same parent company and report on a consolidated basis (even though the reporting requirement is biannual). However, CARB has confirmed that a parent company can pay one lump sum that covers the fee for each Covered Entity subsidiary.

CARB's current proposal for the fee calculation is to do a "flat fee" calculated by dividing the total annual program cost by the total number of Covered Entities for that year. Based on CARB's current assumptions and estimates as of the August working group session, CARB estimates that the annual fee required to be paid under SB 261 for each Covered Entity will be approximately **\$1,403 each year** (with adjustments in future years for inflation and fund deficit/surplus).

We note that this fee is separate from the annual fee payments required under SB 253 (the California requirement that in-scope companies publish GHG

emissions reports), and companies that are in scope under both SB 261 and SB 253 must pay *both* fees each year.⁴

When Will We Have Final Regulations and Guidance?

Public comment and feedback on the current proposals closed on September 11, 2025. However, we expect they may continue to accept feedback via email. CARB intends to publish a notice of proposed rulemaking on October 14, 2025, which opens the formal 45-day Administrative Procedure Act comment period (ending on November 30, 2025). Once feedback has been received and incorporated, CARB will present the proposed rulemaking to the full board for consideration (at a public board hearing) on December 11-12, 2025. We recognize that this does not leave much time for companies to prepare for compliance with the January 1, 2026 first deadline, which is why it is critically important for companies to prepare as much as possible now.

What Other Resources are Available to Me?

Our memo describing the requirements under SB 253 (GHG emissions reports and assurance verification) and steps to get ready for compliance can be found [HERE](#).

CARB's Climate-Related Risk Report Checklist from September 2, 2025 is [HERE](#) (these are consistent with the guidance provided in the August working group session).

CARB's materials and recording from the August 21, 2025 working group session are here:

- [Materials](#)
- [Recording](#)

CARB's FAQ from July 9, 2025 is [HERE](#) (some responses have changed with the latest updates from the August working group session).

CARB's materials and recording from the May 29, 2025 working group session are here:

- [Materials](#)
- [Recording](#)

You can also email CARB with feedback at climatedisclosure@arb.ca.gov.

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⁴ See our other post about SB 253 [HERE](#).