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California's Climate Laws: CARB Sets the Stage, but Final Rules Delayed

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California is gearing up to implement and enforce two groundbreaking climate disclosure laws – the Climate Corporate Data Accountability Act (CCDA) and the Climate-Related Financial Risk Act (CFRA). In July 2025, in lieu of anticipated implementing regulations, the California Air Resources Board (CARB) released preliminary guidance to help businesses prepare for CCDA and CFRA reporting deadlines that remain in place for 2026. CARB's "Frequently Asked Questions Related to Regulatory Development and Initial Reports" (FAQ) guidance document outlines proposed definitions for key terms like "total annual revenue" and "doing business in California," and previews how initial enforcement and 2026 reporting will work. Formal regulations are still in the works. In the meantime, CARB is actively gathering stakeholder feedback – especially on whether companies with minimal California operations should be included.

This preliminary guidance follows a virtual public workshop hosted by CARB on May 29, 2025, where stakeholders provided feedback on the implementation of the CCDA and CFRA. Originally, CARB had issued an Information Solicitation on December 16, 2024, soliciting public comments on how to define "doing business in California," and was expected to adopt final regulations clarifying this term by July 1, 2025. However, the newly released FAQs suggest that the rulemaking timeline has shifted, with CARB asserting that it is still "in the early stages of regulatory development" and "in the informal, information-gathering stage" for implementing the statutes. Implementing regulations are now anticipated by the end of 2025. Despite this delay, CARB reaffirmed that initial reports under the CFRA will still be due by January 1, 2026, and that initial reports under the CCDA will still be due in 2026 for FY 2025, on a date to be set by CARB through the regulatory process.

With this revised implementation roadmap in place, companies should begin assessing whether they fall within the scope of California's climate disclosure laws and prepare to meet upcoming compliance obligations.

Background: California's Climate Disclosure Laws

Under the CCDA, California Health and Safety Code § 38532, companies doing business in California with total annual revenues more than $1 billion are required to annually disclose their Scope 1, 2, and 3 greenhouse gas (GHG) emissions. Separately, the CFRA, California Health and Safety Code § 38533, mandates that companies operating in California with annual revenues exceeding $500 million must biennially disclose their climate-related financial risks.

For a more detailed breakdown of who is affected by SB 253, the specific reporting requirements, and the penalties for noncompliance, see our previous article: "Red Tape or Green Future? Unpacking California's Climate Disclosure Laws and the Pushback."

What's New: CARB's Preliminary Guidance on Definitions and Reporting Requirements

In July 2025, CARB released updated guidance addressing key components of the CCDA and CFRA. The FAQ document outlines proposed definitions and early implementation guidance, while also seeking stakeholder input on several areas of concern – including how the laws may impact companies with minimal California presence.

Guidance on Key Definitions

CARB's July FAQ outlines potential definitions critical to determining whether a business is subject to the CCDA or CFRA and explicitly invites feedback from stakeholders on both the scope and impact of these definitions.

1. "Total Annual Revenue"

Both the CCDA and CFRA apply to businesses based on "total annual revenue" thresholds. CARB proposes defining this term in line with California Revenue and Taxation Code § 25120(f)(2) – i.e., as gross receipts. Under this definition, companies exceeding the revenue threshold and determined to be "doing business in California" would be required to comply with the applicable reporting obligations.

However, CARB is also soliciting input on whether exceptions should be made in certain cases – such as when a business exceeds the revenue threshold, but the majority of its operations occur outside California.

2. "Doing Business in California"

CARB's proposed definition aligns with the Franchise Tax Board's criteria under California Revenue and Taxation Code § 23101. Under this framework, a company is considered to be "doing business in California" if it meets any of the following criteria:

- Engages in any transaction for the purpose of financial gain within California
- Is organized or commercially domiciled in California
- Exceeds specified thresholds related to California sales, property, or payroll as of 2024:
    - ***Sales***: Sales that exceed $735,019 (or 25 percent of total sales)
    - ***Property***: $73,502 (or 25 percent of total property)
    - ***Payroll***: $73,502 (or 25 percent of total payroll)

Again, CARB is seeking stakeholder feedback on the implications of this definition, as well as whether certain exemptions should be considered to avoid over-inclusion of entities with only marginal California connections.

Guidance on Reporting Requirements and Timelines

CARB's July 2025 guidance also clarifies expectations around initial reporting timelines and enforcement discretion, with different approaches for CCDA and CFRA compliance. CARB is seeking stakeholder feedback on how to streamline reporting in accordance with GHG reporting and climate risk disclosure requirements in other jurisdiction while meeting the CCDA's and CFRA's statutory requirements.

1. CCDA: Scope 1 and Scope 2 Emissions Reporting

While the first report pursuant to the CCDA is due in 2026 for FY 2025, CARB has not yet established the exact due date. Recognizing the significant preparation needed for emissions reporting, CARB has reaffirmed in the FAQs that it will exercise enforcement discretion for the first reporting year. Specifically, companies may report Scope 1 and Scope 2 emissions from the prior fiscal year, using data that was already being collected or available at the time of the December 2024 Enforcement Notice. This will allow reporting entities to use existing data to comply with the CCDA in 2026 and use CARB's implementing regulations to guide future new data collection processes once those regulations are ultimately issued.

2. CFRA: Climate-Related Financial Risk Reporting

In contrast, CARB has confirmed that the first climate-related financial risk report required under the CFRA must be publicly available by January 1, 2026. Key details include:

- CARB will open a public docket on December 1, 2025, for covered entities to post the location of their public link to their first climate-related financial risk report.
- This docket will remain open until July 1, 2026, although the report must be made publicly available on a covered entity's website by January 1, 2026.
- Recognizing that climate risk-related data is often collected on a fiscal-year basis and that it takes time to process climate information into a report, these reports may be based on "the best available information" from either the 2023 – 2024 or 2024 – 2025 fiscal year, giving businesses some flexibility in sourcing their disclosure data.
- CARB also recognized that data quality and data sources may change over the course of a year if additional data collection methods were put in place later and will use its enforcement discretion so long as companies make good faith efforts to comply with the CFRA.

Legal Challenges Continue

As discussed in a prior article, the U.S. Chamber of Commerce, the California Chamber of Commerce, and other business groups have filed suit against CARB in federal district court, challenging the constitutionality of SB 253 (the CCDA) and SB 261 (the CFRA). The lawsuit asserts three claims: (1) that the laws compel speech on climate change in violation of the First Amendment; (2) that the laws violate the Supremacy Clause by attempting to supersede federal regulations, such as the Clean Air Act; and (3) that the laws violate the Constitution's limits on extraterritorial regulation, including the Dormant Commerce Clause.

On February 3, 2025, the U.S. District Court for the Central District of California issued rulings on these claims:

- ***SB 253 Challenges***: The Court dismissed the Supremacy Clause and Dormant Commerce Clause challenges to SB 253 *without prejudice* on ripeness grounds. It reasoned that the law does not yet impose direct obligations on companies, as it requires CARB to first issue implementing regulations. Because those regulations have not been finalized, the Court found it premature to assess potential constitutional or interstate commerce concerns.
- ***SB 261 Challenges***: Unlike SB 253, SB 261 imposes immediate requirements on reporting entities, making the Supremacy Clause and Dormant Commerce Clause claims ripe for review. The Court dismissed the Supremacy Clause claim against SB 261 *with prejudice*, finding that the law does not regulate emissions or impose liability for failure to reduce emissions but merely requires disclosure of climate-related financial risks – an area not preempted by the Clean Air Act. The court found that the plaintiffs were unable to identify any federal law that preempted the mere disclosure of climate-related financial risks. Lastly, the extraterritoriality claim was originally dismissed *without prejudice*, with the Court concluding that the plaintiffs had not plausibly alleged a significant burden on interstate commerce. However, because the plaintiffs did not file a second amended complaint, the dismissal of the Dormant Commerce Clause challenge to SB 261 is now *with prejudice.*

With these rulings, the lawsuit now centers solely on the alleged First Amendment violations. While CARB extended its July 1 deadline to finalize implementing regulations, plaintiffs may renew their Supremacy Clause and Dormant Commerce Clause challenges to SB 253 once those regulations are issued.

Additional developments on the federal side may bolster the plaintiffs' First Amendment argument or prompt future litigation challenging the CCDA and CFRA. For example, while SB 253 and SB 261 do not rely directly on the U.S. EPA's 2009 Clean Air Act GHG Endangerment Finding (74 Fed. Reg. 66496 (Dec. 15, 2009)) (Endangerment Finding), the EPA's recent proposed rule to rescind the Endangerment Finding – and thus the scientific basis for federal regulation of mobile source climate-related emissions – could provide opponents to the CCDA and CFRA with an additional line of argumentation. These opponents could argue that, absent a clear scientific consensus or compelling government interest, California's climate disclosure mandates lack sufficient justification. However, this argument may be tenuous, as the state's laws do not rely solely on EPA findings and are grounded in broader financial risk disclosure concerns rather than emissions regulation.

Separately, the plaintiffs in the federal district court challenge filed a motion for a preliminary injunction to halt CARB's enforcement of both laws, arguing that compelled disclosures on the "controversial issue" of climate change would cause irreparable harm. Oral arguments were held on July 1, 2025, but no order has been issued.

According to the current schedule, the litigation is expected to continue into 2026 – beyond the laws' initial compliance deadlines – with trial slated for the latter half of 2026.

How Baker Donelson Can Assist

Baker Donelson's Environmental Group is closely monitoring the implementation of California's Climate Corporate Data Accountability Act and Climate-Related Financial Risk Act. As CARB continues to refine key definitions and adjust the rulemaking timeline, now is the time for companies to assess their exposure and begin preparing for the 2026 reporting requirements. If you have questions about how these laws may apply to your business, how to interpret CARB's preliminary guidance, how to submit comments in CARB's rulemaking process, or how to proactively prepare for compliance, our team is here to help you navigate this complex and evolving regulatory landscape.