

SB 261 (STERN)

FINANCIAL CLIMATE RISK DISCLOSURES

Updated: 03/9/23

SUMMARY

Requires a “covered entity” to annually prepare a climate -related financial risk report and submit the report to the state.

THE PROBLEM

The detrimental effects of climate change pose significant risk to the long-term economic success of our state, impacts the health and livelihood of the communities in which we live, and disrupt the value chains on which we and California businesses rely.

Material and financial risks associated with climate change have the potential to destabilize capital markets and lead to serious negative consequences for financial institutions and the broader economy. Ignoring these risks can be very costly, while finding the path towards a net zero future can offer economic stability, opportunity, and growth for California. Many corporations across the US are taking the lead in voluntarily disclosing their climate risk; however, informed and smart decision making on climate change is being hampered by inadequate and incomplete climate risk disclosures.

For the state’s economy to prosper, and to safeguard the people of California, more and higher quality climate risk disclosures from corporations are needed.

BACKGROUND

In 2018, California’s Fourth Climate Change Assessment¹ warned that California is more susceptible to the growing effects of climate

change than other parts of the country because of several vulnerable climate regions it contains. For example, California’s coastal region will disproportionately experience the effects of sea level rise, including coastal erosion and encroachment on densely populated areas. Given this unique vulnerability, it is essential for California to understand the risks created by climate change and the opportunities corporations have to take responsibility for these risks and collectively drive towards solutions to ensure California’s economy grows and remains climate resilient.

In 2017, the international Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD), consisting of 31 members from around the world, released climate-related disclosure recommendations² for companies, which has become the leading international standard for climate disclosure across industries.

In the US, investor demands have also spurred the Securities & Exchange Commission (SEC) to propose its own climate disclosure rules for publicly listed companies in 2022. Still, disclosure is needed from all leading companies, including the private sector.

California is primed to lead the way in requiring companies to disclose their climate risk by setting the bar on TCFD-aligned disclosure, filling in the gaps from proposed SEC rules, and providing a blueprint for other US states to drive disclosure from non-SEC regulated entities.

¹ [CA’s Fourth Climate Change Assessment: Statewide Summary Report. January 16, 2019](#)

² [Recommendations of the Task Force on Climate-related Financial Disclosures. June 15, 2017](#)

SOLUTION

Standardized, comprehensive, and mandatory climate risk disclosure is needed at the state level to provide robust and actionable information to enable informed decision making on the climate crisis's systemic impacts on capital markets. Accurate and timely disclosure of how climate risks impact a company's finances will enable the transparency key to a well-functioning economy. Disclosure will help mitigate the risk of over- or undervaluing investments that could slow economic growth and progress towards a healthier, more resilient, carbon-neutral future. In addition, while changes associated with a transition to a zero-carbon economy present significant risk, they also create significant opportunities for organizations focused on climate change mitigation and adaptation solutions.

SB 261 will require covered entities, as defined, to prepare an annual climate-related financial risk disclosure report and submit the report to the state. These reports will provide climate-related financial risk information and planning in accordance with the existing TCFD recommendations and framework. The Advisory Group established by Executive Order N-19-19 will then conduct an annual assessment of statewide disclosures and climate-related financial risk, as well as seek input from stakeholders on recommendations to improve the disclosure process.

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Leading Change Consulting and Coaching
Littleton Business Alliance
Los Angeles Climate Reality Project
Mayfair Park Neighborhood Association Board
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Mind Eye World
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Mothers Out Front California
Natural Resources Defense Council (NRDC)
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Santa Cruz Climate Action Network
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Sierra Nevada Brewing Company
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Third Act
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Trinity Respecting Earth and Environment (TREE)
Union of Concerned Scientists

Unite North Metro Denver
Urban Ecology Project
Wall of Women
Western Slope Businesses for a Livable Climate
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