**TYPE**: Guide

**TITLE**: Ensure Compliance with California Climate Disclosure Laws through Contracts

**SUBTITLE**: Use contracts and internal policies to support compliance with CCDAA and CRFRA emissions and climate-risk disclosure obligations

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### **This Guide Enables Organizations To:**

* Understand and comply with California's Climate Corporate Data Accountability Act (CCDAA) and Climate-Related Financial Risk Act (CRFRA).
* Translate statutory reporting and assurance requirements into appropriate contractual and internal policy obligations.
* Cascade climate disclosure obligations effectively through supply chain policies and contracts.
* Manage confidentiality and data quality risks associated with emissions reporting.
* Reduce legal risk and regulatory penalties through clear, actionable legal drafting and internal governance alignment.

### **Introduction: California’s Climate Disclosure Laws**

California has enacted two landmark climate disclosure statutes:

1. **Climate Corporate Data Accountability Act (CCDAA)** (Health & Safety Code §38532): Requires companies with over $1 billion in annual revenue doing business in California to publicly disclose Scope 1 and 2 emissions annually from 2026, and Scope 3 emissions from 2027. Disclosures must align with the Greenhouse Gas Protocol and be independently verified, escalating from limited assurance (2026) to reasonable assurance (2030).

2. **Climate-Related Financial Risk Act (CRFRA)** (Health & Safety Code §38533): Requires companies with over $500 million in annual revenue to report biennially on climate-related financial risks. Initially aligned with the Task Force on Climate-related Financial Disclosures (TCFD), disclosure responsibilities have now transitioned to the International Sustainability Standards Board (ISSB) under IFRS. The California Air Resources Board (CARB) will clarify this transition in forthcoming regulations.

Enforcement: CARB will impose penalties up to $500,000/year (CCDAA) and $50,000/year (CRFRA) for non-compliance.

**Primary Sources:** Organizations should consult the official statutory texts (Health & Safety Code §§38532, 38533) and CARB’s regulatory documentation for precise legal obligations.

**Intended Audience and Implementation**

This guide is designed for legal professionals, including in-house counsel, external lawyers, policy drafters, and procurement teams responsible for contractual compliance and internal governance.

The guidance supports organizations in:

* Drafting new contractual language
* Amending existing contracts
* Updating internal policies and governance documents (e.g., supplier codes of conduct, board committee charters)

Organizations should consider updating supplier policies alongside contracts to effectively cascade obligations downstream.

**Regulatory Context and CARB’s Role**

CARB is responsible for developing, implementing, and periodically updating rules under CCDAA and CRFRA. Organizations should monitor CARB’s rulemaking closely, as these rules will clarify statutory requirements, reporting standards, and assurance procedures.

### **Identify Your Regulatory Status**

Organizations must classify themselves for compliance purposes as either:

* **Reporting Entity (CCDAA):** Partnership, LLC, corporation, or similar entity with >$1B revenue and operations in California.
* **Covered Entity (CRFRA)**: As above, but with >$500M revenue and not regulated by the California Department of Insurance.

This classification is essential for determining legal thresholds and the applicability of contractual and policy obligations.

**Foreign Companies:** Non-U.S. companies are subject to CCDAA and CRFRA only if they have U.S. subsidiaries doing business in California and meet applicable revenue thresholds.

**Contractual Solutions for Emissions Disclosure (CCDAA)**

**Purpose:** Contractual clauses can help ensure accurate emissions data from critical counterparties who themselves meet CCDAA thresholds or significantly contribute to your Scope 3 emissions.

**Implementation Guidance:**

* Limit specific CCDAA-related clauses to critical or threshold-meeting counterparties.
* For smaller suppliers, consider flexible clauses focused on data access rather than direct legal compliance.

**Example Clause (Flexible Option):**

"In addition to general compliance obligations, [the Counterparty] shall provide [the Company] with reasonable access to emissions-related data necessary for [the Company] to comply with its obligations under California Health & Safety Code §38532 (CCDAA)."

**Contractual Solutions for Financial Risk Disclosure (CRFRA)**

**Purpose:** Contracts can support CRFRA compliance by requiring critical counterparties to disclose material climate-related financial risks.

**Implementation Guidance:**

* Limit these clauses to counterparties who themselves meet CRFRA thresholds or whose operations materially impact your climate-related financial risk profile.

**Example Clause (Flexible Option):**

"[The Counterparty] shall provide [the Company] with information reasonably requested regarding material climate-related financial risks associated with its operations, to enable [the Company] to fulfill its obligations under California Health & Safety Code §38533 (CRFRA)."

**Align Supply Chain Contracts with Scope 3 Reporting Obligations**

**Purpose:** Contractual obligations for Scope 3 emissions reporting are additive and supplementary to broader CCDAA and CRFRA requirements.

**Implementation Guidance:**

* Clearly state that contractual obligations are "in addition to" statutory requirements.
* Use supplier policies alongside contracts to reinforce obligations.

**Example Clause (Introductory Language):**

"In addition to any statutory obligations under CCDAA and CRFRA, [the Supplier] shall measure and report Scope 3 emissions data annually to [the Company], aligned with the Greenhouse Gas Protocol."

**Confidentiality and Data Quality Considerations**

Given the proprietary nature of certain emissions data (especially Scope 3, Category 1), organizations must address confidentiality explicitly.

**Watch out for:**

* Lack of standardized methodologies for emissions calculations
* Risks associated with low-quality or inaccurate data
* Importance of aligning with recognized best practices (e.g., GHG Protocol, ISO 14064)

**Example Confidentiality Clause:**

"[The Company] acknowledges that certain emissions data provided by [the Supplier] may constitute proprietary information. [The Company] shall treat such data confidentially and shall not disclose it publicly except as required by applicable law or regulation, and only in aggregated or anonymized form to the extent possible."

**Internal Governance and Policy Recommendations**

Certain provisions, such as board-level responsibility or board approval requirements, are better suited to internal governance documents rather than external contracts.

**Recommended Internal Governance Actions:**

* Establish a board-level Sustainability and Compliance Committee responsible for overseeing CCDAA and CRFRA compliance.
* Update board committee charters to explicitly reference climate disclosure oversight.
* Require board approval for significant contracts with material climate implications through internal policies rather than external contractual terms.

**Example Internal Policy Language:**

"The Board’s Sustainability and Compliance Committee shall oversee compliance with California climate disclosure laws (Health & Safety Code §§38532, 38533). The Committee shall review and approve significant contracts that materially impact the organization's emissions profile or climate-related financial risk exposure."

**Related Guides**

* Deliver a climate transition plan
* Measure, manage, reduce, and report on emissions
* Integrate climate obligations into contracts
* Factor climate considerations into board decisions

Glossary Definitions

* Scope 1, 2, and 3 Emissions
* Climate-Related Financial Risk
* ISSB (International Sustainability Standards Board)
* GHG Protocol
* Third-Party Assurance

**Disclaimer**

This guide is for general informational purposes and does not constitute legal advice. Organizations should seek qualified legal counsel and consult primary statutory and regulatory sources to address specific regulatory obligations.