



CARB Unveils Draft Rules for SB 253 and SB 261 Ahead of February Hearing

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On December 9, 2025, the California Air Resources Board (CARB) announced that it will convene a public hearing on February 26, 2026, to consider approving the adoption of regulations governing California's climate-related disclosure statutes: SB 253 and SB 261.^[1] CARB also published the proposed regulatory text, which we explore below.

Both laws currently are being challenged before the U.S. Court of Appeals for the Ninth Circuit, with California enjoined from enforcing SB 261 pending resolution of plaintiffs' appeal. We have written about the injunction and pending oral argument [here](#).

Public Hearing

CARB will conduct a public hearing on Thursday, February 26, 2026, at 12:00 p.m. ET (9:00 a.m. PT). The meeting agenda will be published [here](#) 10 days before the hearing, on Monday, February 16, 2026. CARB originally was required to adopt regulations for the laws by July 2025; however, the agency did not meet that deadline, extending the public commentary process. In October 2025, CARB announced that it again would delay publishing draft regulations, which were scheduled for board consideration in December 2025.

Proposed Regulatory Text

The proposed regulatory text resolves significant questions stakeholders have raised during CARB's public workshops. The draft rules define key terms (e.g., clarifying what constitutes a "covered entity" and "reporting entity," "revenue," "doing business in California," "parent" and

“subsidiary”), establishes a fee framework for both laws, creates exemptions for in-scope entities and sets the first SB 253 reporting deadline.

Definitions

The proposed rules define terms to enable entities to determine whether they are in scope for either law.

- An entity is a “**reporting entity**” under SB 253 if it:
 - “Is a corporation, partnership, limited liability company, or other business entity formed under the laws of” any U.S. state, or Washington, D.C., “or under an act of the Congress of the United States.”
 - Exceeds \$1 billion in “total annual revenue” for two consecutive years.[2]
 - Does business in California.
- An entity is a “**covered entity**” under SB 261 if it:
 - “Is a corporation, partnership, limited liability company, or other business entity formed under the laws of” any U.S. state, or Washington, D.C., “or under an act of the Congress of the United States.”
 - Exceeds \$500 million in “total annual revenue” for two consecutive years.[3]
 - Does business in California.
- “**Revenue**” references the definition set forth in the California Tax Code definition for “gross receipts”:
 - “Gross amounts realized (the sum of money and the fair market value of other property or services received) on the sale or exchange of property, the performance of services, or the use of property or capital (including rents, royalties, interest, and dividends) in a transaction that produces business income, in which the income, gain, or loss is recognized (or would be recognized if the transaction were in the United States) under the Internal Revenue Code, as applicable for purposes of this part. Amounts realized on the sale or exchange of property shall not be reduced by the cost of goods sold or the basis of property sold.”[4]

- “**Doing business in California**” references the definition set forth in the California Tax Code, meaning a company is “doing business in California” if:
 - It actively engages “in any transaction for the purpose of financial or pecuniary gain or profit.”
 - It “is organized or commercially domiciled” in California.
 - Its California sales exceed the lesser of \$500,000 or 25% of the entity’s total sales.[5]
- “**Parent**” is defined as “a business entity that has ownership interest in or control of another business entity by direct corporate association.”[6] The definition focuses on whether the parent company controls the subsidiary’s operations, management and financial decisions.
- “**Subsidiary**” is defined as “a business entity that another business entity has ownership interest in or control of by direct corporate association.”

To determine “indicia of control,” the proposed rules evaluate whether any of the following exceed 50%: ownership of shares, common ownership or leadership, voting power, interests of the partnership (excluding limited partnerships), control over the general partner (for limited partnerships) and ownership in another entity (for limited liability corporations).

Fee Framework

As previewed in CARB’s **November 2025** public workshop, the proposed rule adopts a flat fee structure. It calculates the fee by starting with the revenue required to implement the program, plus 10% for variable unforeseen costs (referred to collectively as total revenue required (TRR)).[7] CARB also adds debt borrowed for program funding to the TRR. This final sum then is “proportionally allocated” between CARB’s SB 253 and SB 261 oversight programs and, subsequently, “split evenly across the number of reporting and covered entities.”

CARB will invoice each entity for its specific applicable program fees. For instance, an entity with less than \$1 billion in revenue is only subject to SB 261 and will not be invoiced for SB 253 fees.

Exemptions

The proposed rules expand exemptions under both laws to cover:

- Insurers[8]
- “Federal, State and local government entities, and companies that are majority-owned by government entities (>50.00%)”
- Nonprofits or charities (as defined by the Internal Revenue Code)
- Entities whose sole business in California is through teleworking employees
- Entities whose sole business in California is wholesale electricity transactions.

SB 253 First Reporting Deadline

The proposed rules set August 10, 2026, as the first reporting deadline under SB 253 for reporting entities to submit their 2026 greenhouse gas emissions report (applying to Scope 1 and 2 emissions for their prior fiscal year).

In December 2024, CARB published an **Enforcement Notice** indicating that it will exercise enforcement discretion for inaugural reporting under SB 253, recognizing that “companies may need some lead time to implement new data collection processes.” Reporting entities may submit Scope 1 and 2 emissions based on information they already have or were collecting in December 2024, and companies that were not collecting data in December 2024 “are not expected to submit Scope 1 and Scope 2 reporting data for this first reporting cycle.” While CARB has not committed to a timeline, it promised a second rulemaking to set future reporting dates and provide additional details on “reporting contents and format, data assurance, and more.”

On December 1, 2025, CARB issued an **Enforcement Notice** for SB 261, clarifying that, due to the Ninth Circuit’s injunction, it will not enforce the law against covered entities that fail to publish climate-related financial risk reports by the January 1, 2026 statutory deadline. We wrote more about this announcement [here](#).

Opportunities for Public Comment

Interested parties may submit public comment on the Notice of Public Hearing, the proposed regulatory text and the **Staff Report: Initial Statement of Reasons** during a 45-day period from **December 26, 2025, to February 9, 2026**.

We will continue to monitor and provide updates on developments to California’s climate reporting statutes and legal challenges thereto. Please contact a member of our team with

questions about reporting and compliance obligations.

[1] SB 253 is codified at Cal. Health & Safety Code § 38532. SB 261 is codified at Cal. Health & Safety Code § 38533.

[2] Specifically, the proposed rule provides that “the entity’s revenue amount shall be determined by the lesser of the entity’s two previous fiscal years of revenue.”

[3] *Id.*

[4] Cal. Rev. & Tax. Code § 25120(f)(2).

[5] Cal. Rev. & Tax. Code §§ 23101(a), (b)(1), (b)(2). CARB explicitly excluded §§ 23101(b)(3) and (4) “because the thresholds for real property and tangible personal property and compensation, respectively, were considered too low” and “would bring companies into the regulation’s scope with marginal operations in California that are beyond the intent of the legislation.”

[6] Cal. Code Regs. tit. 17, § 95833.

[7] CARB will adjust the required revenue annually based on the California Consumer Price Index.

[8] The statutory text of SB 261 exempts insurers. The proposed rule expands this carve-out to SB 253.

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California Air Resources Board (CARB)

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