

AGENDA

OPINION

Could You Pass a Climate Literacy Test?

How California and the EU are rewriting corporate sustainability reporting requirements

By [Shai Sahay](#), [Matthew McBrady](#), [Stephen Wald](#) | November 17, 2025

Could you pass a climate literacy test to avoid breaching your duty of care? It's not a hypothetical. Broad-based sustainability reporting requirements start in January 2026. Specifically, California and the EU have passed mandatory climate disclosure laws affecting most large companies in the U.S.

Board climate literacy matters. Under In re Caremark, directors must ensure that management systems are in place to track and disclose material risks, including climate risks. Directors must ask tough questions about climate analysis and whether the company's data systems can deliver accurate disclosures. If you can't tell the difference between Scope 2 and 3 emissions, you could expose yourself to liability. Our discussions with scores of directors strongly suggest that climate literacy is lacking.

Does Reporting Matter Without Federal Mandates?

In the absence of federal rules, California and the EU are leaders in developing robust disclosure frameworks that apply to thousands of U.S.-based compa-

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nies. Both are committed to long-term sustainability goals. Mandatory disclosures form the cornerstone of their strategy to achieve them.

Banks and institutional investors representing over half the world's investable assets have also announced net-zero transition plans. They expect portfolio companies to collect data needed to measure progress against these commitments, even if portfolio companies lack emissions targets of their own.

What Key Concepts and Standards Should I Know?

Sustainability reporting reflects two elements: quantifying emissions and evaluating risks.

The Greenhouse Gas Protocol developed the dominant accounting methodology for reporting emissions, defining them as:

- **Scope 1:** Direct emissions from company-owned or controlled sources
- **Scope 2:** Indirect emissions from purchased energy
- **Scope 3:** Indirect emissions from company's value chain

Two approaches exist for evaluating risks: "Single materiality" requires companies to disclose sustainability risks that could affect their financial results. "Dual materiality" evaluates how a company's activities impact the broader environment and society.

Directors need to know of three key standard-setting bodies:

Climate Standard-Setting Bodies

Organization	Purpose	Materiality Approach
ISSB (International Sustainability Standards Board)	Global baseline of sustainability disclosure standards for reporting under International Financial Reporting Standards (IFRS)	Single
GRI (Global Reporting Initiative)	Comprehensive framework to report on economic, environmental and societal impacts	Dual
EFRAG (European Financial Reporting Advisory Group)	European Sustainability Reporting Standards (ESRS), mandatory standards tailored to EU's regulatory context and interoperable with ISSB and GRI	Dual

Source: Bracewell

The ISSB's single materiality approach sets the standard for international companies reporting results under IFRS (rather than GAAP) standards. The SEC also adopted the ISSB approach in the rule it proposed then withdrew on climate-related disclosures. European companies are subject to much broader sustainability reporting requirements with EFRAG's adoption of the dual materiality approach in its recommendations for implementing the Corporate Sustainability Reporting Directive.

Do EU Mandates Apply to US Companies?

Yes. Entities subject to the CSRD (and hence, EFRAG's dual materiality framework) include all business with over €150M or more in revenue in the EU, regardless of headquarters or jurisdiction.

Of greater concern for many U.S. directors is the EU's Corporate Sustainability Due Diligence Directive. It adds sustainability-related due diligence obligations across companies' value chains, particularly on climate and human rights issues. While the CS3D applies only to companies with 5,000 or more employees and at €450M or more in EU revenue, many large U.S. companies are likely subject to it without knowing.

What Are California's Requirements?

Companies operating in California meeting revenue thresholds must make climate-related risk disclosures in 2026:

- **SB 261 – Climate-Related Financial Risk Act:** Mandates biennial reports on climate-related financial risks, with the first report due on Jan. 1, 2026. Applies to companies with annual revenues of \$500M or more doing business in California.
- **SB 253 – Climate Corporate Data Accountability Act:** Requires companies with \$1B or more in annual revenue conducting business in California to report Scope 1 and 2 emissions starting in 2026. Scope 3 emissions reporting begins in 2027.

See [the California Air Resources Board list of companies](#) subject to these regulations.

How Do I Ensure My Company Is Prepared?

There are options for implementing governance systems and navigating the changing global sustainability landscape. A board may appoint a chief sustainability officer, aligned with a dedicated board committee, to institutionalize sustainability responsibility. Another option is to publish an annual sustainability report benchmarked against industry peers, demonstrating commitment to responsible business practices.

Legal counsel will play a critical role if your company is trying to determine what state, federal or international sustainability reporting requirements apply, or to evaluate the legal sufficiency of prepared disclosures.

Third-party environmental consultants can assist in gathering data and preparing disclosures, but for a slightly larger investment, dedicated internal resources can both gather data and drive meaningful change. Sustainability disclosures are not a checklist item; they are long-term value drivers. Boards set that tone.

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