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February 9, 2026

Office of the Secretary
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Via online submission

Re: California Air Resources Board's (CARB) Proposed California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Initial Regulation

Dear Office of the Secretary:

RSM US LLP (RSM, we) values the opportunity to offer our comments on the California Air Resources Board's (CARB) *Proposed California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Initial Regulation* (the Proposed Regulation). RSM is the leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

Overall Comments on the Proposal

Overall, we support the intent and function of the Proposed Regulation to clarify the applicability; we also support establishing the fee program under the Climate Corporate Data Accountability Act (codified in Health and Safety Code section 38532) and the Climate-Related Financial Risk Reporting Act (codified in Health and Safety Code section 38533).

Our responses are based on our understanding of the Proposed Regulation as provided in the publicly disseminated materials ahead of the CARB hearing on February 26, 2026. We have included specific comments on the proposal below and also have the following overall thoughts on the proposal:

- **Reporting entity composition:** We believe the regulations are unclear on how to determine what data and entities are included in an entity's report (i.e., the reporting entity). Specifically, how the definitions of parent and subsidiary relate to the definition of reporting entity and which subsidiaries should be included with the parent's report, not be included or be reported separately. We suggest that CARB create a flow chart to assist reporting entities in determining the scope of the subsidiary entities to be included in the parent's report.
- **Determining applicability:** Entities may face uncertainty in determining applicability, even after management review or legal support. It would be beneficial for CARB to provide consultation resources for entities to contact.
- **Cost of implementation:** The "Non-Major Regulation: Statement of the Results of the Economic Impact Assessment (EIA): The creation or elimination of jobs within the State of California" section of the Notice of Public Hearing to Consider the Proposed California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Initial Regulation states:

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The Proposed Regulation is not expected to directly affect the creation or elimination of jobs within the state, as the estimated compliance costs for this regulation are minimal and not anticipated to influence employment levels. Any potential costs associated with the addition of the first year (2026) corporate GHG reporting deadline through the Proposed Regulation would be negligible, and potentially zero for some companies, and is not expected to create or eliminate jobs.

Some entities that meet the applicability requirements may not be accustomed to reporting such data, and accordingly will likely incur additional costs for implementation of policies, processes and controls over determining the applicability of sections 38532 and 38533 of the Health and Safety Code as well as the determination of the fees under these sections of the Health and Safety Code. As complexity of the reporting entity's structure increases, so do the associated costs of implementing the Proposed Regulation.

Specific Comments on the Proposal

As requested, we have feedback on the following elements of the CARB Staff Report: Initial Statement of Reasons dated December 9, 2025, as well as other feedback on the proposal, explained below:

Section III. The Specific Purpose and Rationale of Each Adoption, Amendment, or Repeal

A. Section 96201. Applicability

B. Section 96202. Definitions

C. Section 96203. Calculation of Fees

D. Section 96204. Fee Payment and Collection

E. Section 96205. Enforcement

F. Section 96206. Deadline for Reporting under Health and Safety Code section 38532

G. Section 96207. Severability

A. Section 96201. Applicability

It is our understanding that each individual business entity should determine whether it is in scope of sections [38532](#) and [38533](#) of the Health and Safety Code. In determining whether a business entity meets the definition of reporting entity or covered entity, and therefore meets the applicability requirement in section 96201(a), we believe it would be necessary to determine which other individual business entities within its corporate family tree should be included (or consolidated) to determine if the business entity meets the definitions of reporting entity under section 96202(a)(11) or covered entity under section 96202(a)(5) for purposes of complying with sections [38532](#) and [38533](#) of the Health and Safety Code, respectively. Two of the criteria to meet the definition of a reporting entity or covered entity are:

1. The business entity does business in California,¹ which requires either:
 - a. Being commercially domiciled in California² or
 - b. Meeting a certain threshold of sales in California as defined in section [23101\(b\)\(2\)](#) of the Revenue and Taxation Code,³ and
2. Have revenue, which is equivalent to “gross receipts” under section [25120\(f\)\(2\)](#) of the Revenue and Taxation, that meets a defined threshold.⁴

The composition of business entities included will affect the sales in determining whether the business entity does business in California under section [23101\(b\)\(2\)](#) of the Revenue and Taxation Code and in determining the revenue (or “gross receipts”) under section [25120\(f\)\(2\)](#) of the Revenue and Taxation Code.

We believe it is unclear which individual business entities within a corporate family tree should be included when determining whether a given business entity meets the definition of a reporting entity or a covered entity and, therefore, sections [38532](#) and [38533](#) of the Health and Safety Code would apply to that business entity.

We recommend CARB design a flow chart to aid entities in evaluating whether they are within the scope of sections [38532](#) and [38533](#) of the Health and Safety Code by depicting each decision point in determining which other individual business entities within the corporate family should be included in a given business entity’s determination of whether it meets the definition of a reporting entity or covered entity. See our comments in subsection B regarding the definitions of reporting entity and covered entity.

The Proposed Regulation includes an exemption for “business entities whose only business in California is employee compensation or payroll expenses, including teleworking employees.”⁵ The rationale for this included:⁶

- A large number of teleworking employees since the global pandemic of 2020
- Challenges of interpreting how teleworking may fit into the definition of “doing business in California” in section 96202(a)(8) of the Proposed Regulation
- Seeking to avoid unintended consequences of businesses with only virtual operations in California from leaving the state.

While we do not disagree with these points, we also believe there may be an unintended consequence where business entities that currently do business in California and have operations in California revise their physical location and structure to where the business entity would only have virtual employees in California to avoid being required to comply with sections [38532](#) and [38533](#) of the Health and Safety Code. It is possible CARB already considered this, but we believe this is an important nuance to address in the rationale of the Proposed Regulation.

¹ Sections 96202(a)(5) and 96202(a)(11) of the Proposed Regulation

² Section [23101\(b\)\(1\)](#) of the Revenue and Taxation Code

³ Section [23101\(b\)\(2\)](#) of the Revenue and Taxation Code

⁴ Sections 96202(a)(5) and 96292(a)(11) of the Proposed Regulation

⁵ Section 96201(b)(5) of the Proposed Regulation

⁶ California Air Resources Board’s Public Hearing to Consider the Proposed California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Initial Regulation, Staff Report: Initial Statement of Reasons.

B. Section 96202. Definitions

There appears to be inconsistency between duplicating definitions in other code sections or paragraphs and referencing the other code sections or paragraphs, such as the references that were included in sections 96202(a)(7) and 96202(a)(8) relating to “doing business” and “doing business in California.” We recommend that CARB be consistent on either duplicating or referencing definitions listed in other code sections or paragraphs. In general, we believe referencing the definitions in other code sections or paragraphs may lead to more consistency throughout the code. Changing the reference format may simplify updates and prevent inconsistencies in definitions, as noted in our detailed comments below.

In addition, as detailed in our comments in subsection A and our comments on the definitions below, we were unable to determine which other individual business entities within its corporate family tree should be included (or consolidated) to determine if a given business entity would meet the definitions of reporting entity under section 96202(a)(11) or covered entity under section 96202(a)(5) for purposes of complying with sections [38532](#) and [38533](#) of the Health and Safety Code, respectively.

We have the following specific comments on the proposed definitions in section 96202(a):

(13) Revenue: We appreciate the consistency in the definition of revenue with “gross receipts” under section [25120\(f\)\(2\)](#) of the California Revenue and Taxation Code.

(11) Reporting entity: We noted the definition of “reporting entity” is similar to the Health and Safety Code paragraph [38532\(b\)\(2\)](#) with a difference in how the entity’s revenue is determined (i.e., the lesser of the entity’s two previous fiscal years in the Proposed Regulation rather than the prior fiscal year in section [38532\(a\)\(2\)](#) of the Health and Safety Code). In addition, we noted that the form of the entities listed is identical to the definition of “business entity” in paragraph 96202(a)(1). We believe referring to section [38532\(a\)\(2\)](#) rather than repeating the definition may simplify updates and prevent inconsistencies in the future should one regulation be updated independent of the other.

In addition, it is unclear which other individual business entities in their respective corporate family tree should be included in the “reporting entity” in preparing the report and determining whether the entity does business in California. We believe the following items should be clarified:

- a. The individual business entity(ies) within a corporate family tree that should submit a report. This includes:
 - i. Clarifying whether each individual business entity should determine if they meet the criteria to be considered a “reporting entity”
 - ii. For those individual business entities that meet the criteria to be considered a “reporting entity,” the options the entities within a corporate family tree have to group themselves to submit a report
- b. The subsidiaries to each of those entities that should be included in the report:
 - i. All subsidiaries
 - ii. U.S. subsidiaries only
 - iii. Only subsidiaries doing business in California

- iv. Only subsidiaries that also meet the definition of “reporting entity”
- v. A subsidiary that submits a separate report under section 96202
- vi. Any combination of the above
- c. If subsidiaries that meet the definition of “reporting entity” are also included in the parent entity, would the parent entity and the parent of the parent entity meet the definition of “reporting entity” if they file unitarily?
- d. Can subsidiaries that meet the definition of “reporting entity” submit a separate report? If so, would the parent’s report include the subsidiary that was reported separately?
- e. How do the entities included as part of the “reporting entity” relate to the entities included in the determination of “revenue” under this section?

See also “(10) Parent” and “(16) Subsidiary” below for comments regarding those definitions.

We believe the differences in the definition of “reporting entity” in the Proposed Regulation compared to that in Health and Safety Code paragraph [38532\(b\)\(2\)](#) should explicitly be addressed. We offer the following recommendations in defining “reporting entity” for the purpose of Article 6: California Climate Disclosures of Title 17 of the California Code of Regulations to address the differences:

- **Acknowledge the difference, retaining section [38532](#) as the primary definition source:** (11) “Reporting entity” shall have the same definition as set forth in section [38532](#) of the Health and Safety Code, except that “Applicability shall be determined based on the business entity’s revenue for the prior fiscal year” shall not apply for purposes of this section. For purposes of this section, the entity’s revenue amount shall be determined by the lesser of the entity’s two previous fiscal years of revenue. When applicable, a “reporting entity” shall include a parent (as defined in section 96202(a)(10)) and any subsidiaries (as defined in section 96202(a)(16)).

or

- **Create a new definition of “covered entity” within this section separate from the definition of “covered entity” in section [38532](#):** (11) “Reporting entity” means a business entity with total annual revenues in excess of one billion United States dollars (\$1,000,000,000) and that does business in California. The entity’s revenue amount shall be determined by the lesser of the entity’s two previous fiscal years of revenue. When applicable, a “reporting entity” shall include a parent and any subsidiaries as defined in section 96202(a).

(5) Covered entity: We noted the definition of “covered entity” is similar to the Health and Safety Code section [38533\(a\)\(4\)](#) with a difference in how the entity’s revenue is determined (i.e., the lesser of the entity’s two previous fiscal years in the Proposed Regulation rather than the prior fiscal year in section [38533\(a\)\(4\)](#) of the Health and Safety Code). In addition, we noted that the form of the entities listed is identical to the definition of “business entity” in section 96202(a)(1). We believe referring to section [38533](#) rather than repeating the definition may simplify updates and prevent inconsistencies in the future should one regulation be updated independent of the other.

In addition, it is unclear which other individual business entities in their respective corporate family tree should be included in the “covered entity” when submitting the report and determining whether the entity does business in California. Our concerns listed in “reporting entity” above also apply.

We believe the differences in the definition of “covered entity” in the Proposed Regulation compared to that in Health and Safety Code section [38533\(a\)\(4\)](#) should explicitly be addressed. We offer the following recommendations in defining “covered entity” for the purpose of Article 6 of Title 17 of the California Code of Regulations to address the differences:

- **Acknowledge the difference, retaining section [38533](#) as the primary definition source:** (5) “Covered entity” shall have the same definition as set forth in section [38533](#) of the Health and Safety Code, except that “Applicability shall be determined based on the business entity’s revenue for the prior fiscal year” shall not apply for purposes of this section. For purposes of this section, the entity’s revenue amount shall be determined by the lesser of the entity’s two previous fiscal years of revenue.

or

- **Create a new definition of “covered entity” within this section separate from the definition of “covered entity” in section [38533](#):** (5) “Covered entity” means a business entity with total annual revenues in excess of five hundred million United States dollars (\$500,000,000) that does business in California. The entity’s revenue amount shall be determined by the lesser of the entity’s two previous fiscal years of revenue. “Covered entity” does not include a business entity that is subject to regulation by the Department of Insurance in this state, or that is in the business of insurance in any other state.

(10) Parent: We believe there may be a typographical error in the reference to indicia and thought the reference to section 96202(a)(6) should be section 96202(a)(16).

Also, see “(16) Subsidiary” for comments related to the indicia and reference to section [95833](#) of Title 17 of the California Code of Regulations.

(16) Subsidiary: It appears there may be an inconsistency in the indicia used to determine “direct corporate association.” Section 96202(a)(16) includes a list of indicia of control to determine ownership or control. In addition, the same section states a subsidiary means, “a business entity that another business entity has ownership interest in or control of by direct corporate association as set forth in section [95833](#) of Title 17 of the California Code of Regulations.” It appears that the indicia in sections [95833\(a\)\(1\)](#)–[95833\(a\)\(2\)](#) is included in the list of indicia included in list in section 96202(a)(16) and that three types of indicia from section [95833](#) to determine a direct corporate association are not included in the list in section 96202(a)(16). These are described in sections [95833\(a\)\(3\)](#) and [95833\(a\)\(5\)-\(a\)\(6\)](#) relating to when two entities are connected through a line of more than one direct corporate association, publicly owned electric utilities operating two facilities and individuals who have shared roles.

We recommend that the entities that should be considered subsidiaries be clarified, preferably through reference to one or more sections in section [95833](#) of the California Code

of Regulations or listing the indicia without the reference to section [95833](#) of the California Code of Regulations.

(1) Business entity: The definition of “business entity” includes “other business entity” as one of the forms of entities listed, which we believe may be circular and should be clarified. We recommend the wording be modified to “other entity doing business,” which would refer to the definition of “doing business” in section 96202(a)(7) rather than “business entity,” which is the term being defined.

C. Section 96203. Calculation of Fees

The staff stated the contingency adjustment (“A”) for unforeseen costs or revenue shortfalls is currently 10%. It is unclear whether CARB is intending on reviewing, and possibly making an adjustment to, the contingency adjustment periodically to reflect the current and expected economic conditions. We recommend CARB clarifies this point to prevent potential overfunding in future periods.

D. Section 96205. Enforcement

Regarding the enforcement mechanisms necessary to ensure compliance with the fee payment requirements in the Proposed Regulation, we ask CARB to provide details on how enforcement will be assessed and managed. While enforcement is authorized through the assessment of penalties, the proposal does not specify penalty amounts or implications for non-compliance.

E. Section 96206. Deadline for Reporting under Health and Safety Code section 38532

We believe the August 10 reporting deadline is inconsistent with the more typical reporting dates of the 15th or 31st of the month and it is unclear what the regular reporting deadline will be in future years. While we understand the potential rationale to align reporting for entities with non-calendar fiscal years, we recommend that the Staff clarify what the regular reporting deadline will be in future years and align such deadlines with a more typical reporting date of the 15th or 31st of the month.

In addition, we believe guidance on how to handle entities with a 5-4-4 accounting period, which results in different fiscal years having different period-end dates, would be beneficial, as this may cause an issue where the fiscal year end may be February 2 one year and January 31 the following year. According to the draft regulations, entities would have a year with no report due and a year with two reports due. We suggest considering “fiscal periods beginning after January 15.” This is consistent with how accounting and auditing standards avoid the issue when a 5-4-4 accounting period is used.

Section IV. Benefits Anticipated from the Regulatory Action, Including the Benefits or Goals Provided in the Authorizing Statute

The Proposed Regulation establishes a fee structure and funding for implementation of Health and Safety Code sections [38532](#) and [38533](#). We understand that the funding is primarily for covering the costs associated with the hiring of staff to enforce and review compliance. However, we recommend establishing a review or adjustment process to avoid unnecessary fees if program costs stabilize but revenue keeps growing due to the 10% annual increase.

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We would be pleased to respond to any questions the California Air Resources Board may have about our comments. Please direct any questions to Anthony DeCandido, Partner, at 203.388.7053, or Scott Wilgenbusch, Partner, National Professional Standards Group, at 312.634.3302.

Sincerely,

RSM US LLP

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