

CLIMATE REPORTING: 10 Tips for Better Narrative Disclosures

JUNE 2025



California’s SB 261 (Climate-Related Financial Risk Act) requires companies with over \$500 million in annual revenue that “do business in California” to prepare and make public a climate-related financial risk report. The first disclosures begin in 2026, and cover the 2025 fiscal year. The requirements closely track the framework developed by the Task Force for Climate-Related Financial Disclosures (TCFD).



These disclosures are primarily narrative in nature. Companies subject to California’s SB 261¹ will do well to apply these 10 tips for narrative disclosures. Indeed, anyone preparing narrative content for any type or avenue of Sustainability reporting may find these useful.

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¹ Original bill at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB261



Writing Narrative Disclosures for Climate? Do This/ Not That: 10 Tips

Many companies have been busy preparing greenhouse gas (GHG) emissions inventories. Some have undergone assurance. Others are preparing for assurance, sometimes with an independent readiness assessment. With all the effort on quantitative data, the qualitative side can get overlooked. It's just a story, it's not subject to assurance, so we can say what we want. Right? Not so fast.

Douglas Hileman Consulting LLC (DHC) offers 10 tips for better narrative disclosures. These apply to climate-related disclosures and any other Sustainability related reports or disclosures.

1. Narrative should be verifiable.

Quantitative data gets all the attention for verifiability and validation. Greenhouse gas (GHG) emissions inventories may be subject to external assurance under some laws or regulations. Assurance may be done to meet expectations of business partners. TCFD, the foundation for California's SB 261, is now merged into the International Sustainability Standards Board, an arm of the International Financial Reporting Standards foundation. Why all this wonky standard stuff? IFRS is the global counterpart to the U.S.'s SEC. ISSB standards are a "cousin", if you will, to Regulation S-K. Publicly-traded companies must file a Form 10-K, which includes a Management Discussion & Analysis section. These disclosures are used by capital markets in research, making recommendations, and providing capital. Readers expect content they can use.



2. Get the right people involved.

The groups involved in content for a Form 10-K could have a role in narrative climate disclosures. They have "muscle memory" of preparing narrative disclosures. Climate risks, strategy, processes and controls differ from those for financial reporting and disclosures. Key responsibilities could reside with Accounting, Environmental, Operations, Procurement, Real Estate, Sustainability or others. Include them.



3. The disclosures pertain to a reporting period.

Many who draft narrative climate disclosures (or any Sustainability reports or disclosures) lose sight of this. Narrative disclosures pertain to governance structures, risk practices, controls and activities for a specified reporting period. Not before, not after. If referencing other reporting periods, provide context for clarity to the reader.

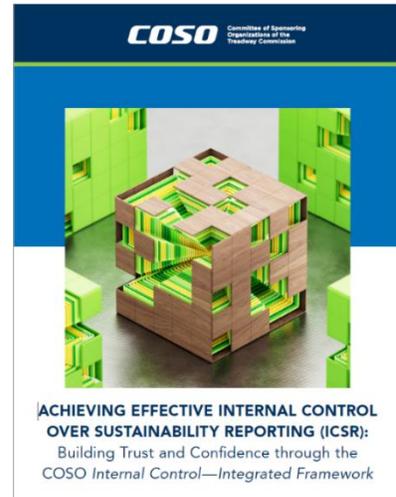
Could be Misleading	Better
<ul style="list-style-type: none">• Company leadership has always been supportive of efforts to reduce the risk of climate impact to the companies and our stakeholders.• The Risk Management function has considered any kind of risk since it was established 10 years ago.• The Company will be consolidating five IT solutions, including ABC, DEF, and XYZ into GGGHGG next year.	<ul style="list-style-type: none">• The Executive Committee oversees efforts of the Climate Steering Committee and various topical work groups. This included sponsorship at two conferences in CY 202X, where Company representatives presented on climate-related topics.• Climate risks (both physical and transition risks) are among those included in the Company's existing risk processes.• The Company had an effort underway in CY 202X to rationalize vendors used to support climate-related tasks and initiatives, with the objective of reducing the number of vendors and improving the quality of data and information.





4. Leverage COSO.

COSO² is the go-to framework for internal controls over financial reporting (ICFR). COSO released “Achieving Effective Internal Controls over Sustainability Reporting (ICSR)” to wide acclaim in 2023. These major documents are principles-based, suitable for tailoring to any organization or topic. COSO principles include things not found in other standards or frameworks. For example, COSO internal controls framework addresses the prevention and detection of fraud. ISO management systems do not. The author is not aware of any law or framework that requires narrative disclosures to be “COSO-compliant.” Nonetheless, COSO is familiar to those responsible for preparing, auditing, and using financial disclosures. COSO released an exposure draft for Corporate Governance Framework (CGF) in June 2025³. The CGF – even in draft form – can be very helpful for narrative disclosures.



5. Align narrative with quantitative data and information.



The two should be compatible – or at least, not contradictory. Consider the statement “Our risk committee oversees identification and assessment of climate-related risks, and actions taken to reduce the GHG emissions of our products to meet our goals.” What if the GHG emissions have increased in each of the last three years? An apparent contradiction can erode trust in the disclosures. It does not matter if the GHG emissions inventory is elsewhere in the same disclosure, or if it is publicly available elsewhere (CDP, company website, etc.). Analysts may spot the discrepancy (especially with help from AI), and factor this into their ratings. Explanatory narrative can help [“Our company has exited some aspects of our business, and entered others. Some of our new products make extensive use of data centers, leading to increases in emissions over the last two reporting periods.”] Maybe not the greatest news – but transparency counts.

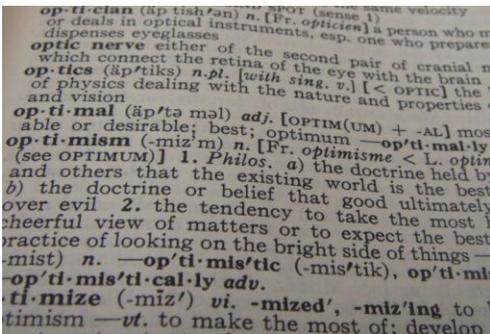
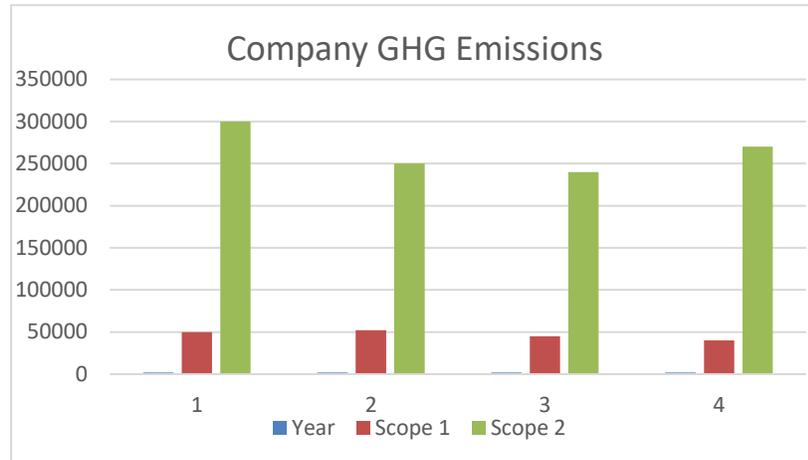
² The Committee of Sponsoring Organizations of the Treadway Commission, an initiative that has developed frameworks and guidance on, among other things, internal controls, enterprise management. Douglas Hileman is an author of the COSO ICSR document. See www.coso.org.

³ Comment period was until July 11, 2025. Douglas Hileman Consulting LLC (DHC) submitted comments. See www.douglashileman.com.



6. Narrative disclosures should be comparable over time.

Financial and other business reports include depictions of performance over time. Users may compare narrative disclosures over time. If last year's disclosure described the Climate Steering Committee as led by Sustainability, and this year's designates Legal, why the switch? If the company describes seven key climate-related risks in one reporting period, and four in the next period, what happened? AI has enhanced the ability to spot these differences. Compare and explain.



7. Some words have specific meanings – don't misuse them.

A “risk” is different from a “liability.” You can “take *stock*” of a situation, but that’s not the same as buying a share of *stock* in the company. In the world of climate risk and GHG emissions reporting, many terms have specific meanings. Companies and consultants agree on the scope of an engagement; GHG

emissions reporting involves determining if emissions are Scope 1, Scope 2, or Scope 3. “Material” and “significant” aren’t the same thing. “Scenario” isn’t necessarily the type of scenario planning done for standard contingency planning. If you bring up “audit”, “internal audit”, “assessment” and “assurance”, we could really go down a rabbit trail! Words matter – use the right ones.



8. Include attributions and roles – not names.

Climate disclosures do not require names. People move on. Organizations restructure. Vendors are acquired or change names. Naming vendors could be implied as an endorsement. Don't overstate what third parties have done. Users are interested in governance and processes – not personal information.

Example Draft	Better
<ul style="list-style-type: none">• Donna McIntyre, our head of Risk, is leads the corporate climate team.• We hired Scope 3 R Us Consultants obtained emissions factors for Scope 3 categories.• We retained GHG Audits, Inc. to ensure that our GHG emissions calculations are accurate, and our disclosures are complete.	<ul style="list-style-type: none">• The Risk group leads company's cross-functional climate team.• We engaged a vendor to support GHG emissions calculations, including obtaining and using emissions factors.• As a quality control measure, we retained a specialized consultancy to perform a review of selected processes and calculations.

9. There's a difference between what you could write, and what you choose to disclose.

Climate disclosures can be intended for several audiences. Providers of capital rely on reporting and disclosures governed by finance and accounting standards. Business partners, prospective employees, and other stakeholders look to other avenues of reporting and disclosures. CDP is a non-profit that runs the world's leading environmental disclosure system. CDP's roots are in carbon-related disclosures, so this is the standard first stop for financial analysts. Groups within a company may be tempted to generate more content to demonstrate their diligence – or to jockey for a promotion. This all doesn't need to be included in disclosures. We've all met that person who overshares; this can backfire, leading to distrust. Tailor disclosures to the needs of the users.





10. Save the flowers for Valentine's Day.

Keep it dry, clear, and simple. “Our company has long been committed to embedding climate risk and performance into everything we do. We pro-actively consider risks and opportunities in our everyday operations and strategic planning.” Discerning readers will think, “OK, convince me.” Provide enough content to be convincing; don't gild the lily.



BONUS: Two-track it.

This sign is funny/ not funny – because it's true. When preparing disclosures for a prior reporting period, teams always identify things they wish they could say.

Examples: monitoring third parties; including Procurement on the cross-functional team; better data to enable calculations of categories of Scope 3 emissions; adopting or improving technology. Or starting to prepare disclosures earlier in the year. Climate disclosures are not one-time events; they are annual disclosures. Begin efforts now, so you can make the statements you want in the next disclosure.



Douglas Hileman, FSA, CRMA, CPEA, P.E. has over four decades of experience in the Sustainability field: compliance, risk, reporting, and auditing. He worked in industry, a Big 4 firm, management consulting, the Volkswagen Monitor Team, and his consultancy. Mr. Hileman is an author of COSO's “Achieving Effective Internal Controls over Sustainability Reporting (ICSR)”, released to wide acclaim in 2023. [See more about us.](#) See also [\(25\) Douglas Hileman, FSA, CRMA, CPEA, P.E. | LinkedIn.](#)

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