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David Batker Comments on Listing Standards for Natural Asset Companies

October 24, 2023

I give this proposal my fullest recommendation for approval. I provided input to the IEG framework as an advisor in early stages of development.

Background

I have worked in the field of natural capital accounting for over 30-years. I have worked with local, state and federal agencies in this area and with private firms in these sectors: agriculture, forestry, mining, oil and gas, shipping, conservation, engineering firms that provide services for the construction of levees, storm water systems, bridges, roads, data centers, water supplies, aquifer recharge, hospitals, and commercial real estate and more.

I was also asked by federal agencies and assisted in the revision of benefit/cost analysis in 2016 for federal agencies to include ecosystem goods and services valuation. I have presented to GASB and FASB and provided workshops to boards on natural capital accounting. The Federal Emergency Management Agency (FEMA) hired me and FEMA adopted ecosystem service valuation in 2013 and subsequently for accomplished for federal agencies in 2016. I also contributed to the OMB decision to reduce the discount rate.

I have worked laying out the economics for perhaps 200 practical projects which required natural capital valuation and accounting, including levees, projects that integrate natural and built infrastructure. I have worked in 45 US states and 25 countries.

Advancements in accounting and fiduciary reporting requirements are continually evolving and improving.

One glaring gap has been the lack of reporting on natural capital and the need for firms focused on maintaining and improving the health of absolutely essential natural assets.

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Need: This is briefly and well described in the SEC notice. Biodiversity, water, soil and carbon are essential assets and economies face catastrophic consequences if these assets are degraded. Currently, firms engated in manufactured goods, services, software, health care, and even intangibles have reporting guidelines and requirements. On the natural resources side, firms engaged in oil, gas, coal, and minerals have reporting and accounting structures. Tangible and essential as they are, there is no comparable reporting for firms that would be natural asset companies that actually enhance critical natural resources such as groundwater, soil, biodiversity and carbon stocks and flows. This is a very humble beginning. Other natural assets, upon which life and economies depend, such as the ozone layer, air quality, nutrient flows are also important, need not be considered here, but will be advanced if this rule change can be approved.

Scale of Value: As noted, natural capital has been valued at over $100 trillion. This is clearly an underestimate of the full value. I have conducted many natural asset valuations. In November, 2023 I am completing a study of the value of natural assets in the Upper American River, El Dorado County, California for the El Dorado water agency. That relatively small U.S. watershed alone is valued at over $1 trillion. The American River watershed has experienced three catastrophic fires in the last 4 years. This asset is being dramatically degraded. The water supply for Sacramento, agriculture in the San Joaquin Valley, water quality for salmon, depend on water from this watershed.

Growing Firms: The creation of natural asset companies for enhancing, conserving, and growing natural assets is critical for our nation. Loss of biodiversity, clean fresh water supplies, soil quality and climate stability are all being rapidly degraded. These assets are the foundation for historic and modern economies. The potential for investment flows into natural asset companies is significant, if these rules are approved, and can provide vast growth in jobs, incomes, and productivity.

Pent Up Investment: I have worked with many natural resource firms. There is pent up investment and income waiting for a NAC structure. There are already over 2,500 payments for ecosystem goods and services in the United States. For example, the city of Bellingham, Washington has a watershed protection charge on the water bills, which is invested in the upper watershed to protect the water supply. A NAC could receive income instantly from utilities or other entities already investing to improve biodiversity, water, soil, and climate stability. Unfortunately, investment is encumbered by the lack of private firms and private investment.

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NAC Structure is the Right Structure: Drawing upon my extensive experience, I believe the NAC structure will draw significantly greater productive investment into conservation and the enhancement and conservation of our nations soil, biodiversity, water, and climate stability. Currently, there is no private investment vehicle that has the potential capacity of the NAC structure for brining private investment to the table of sustainability. The funding mechanisms for NACs to get off the ground is already present. The requirements for the Charter, license agreements and NAC policies are clearly workable and defendable.

The Ecological Performance Reporting Framework is Sound: The framework presented does not go as far as I would like, however, it is sufficient, robust, repeatable, and resilient to frivolous challenge. The transparencies and disclosures required are sufficient and thorough. The requirement of a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") independent from the NAC and NAC licensor provides a critical and sufficient check and balance for due diligence.

Policies Required are Clear and not Burdensome: Firms already have social and environmental, human rights, and biodiversity policies. The proposed rules help set better standards and raise general reporting expectations by investors.

The IEG Framework is Thorough and Workable: Ecosystem services and their valuation are well understood and IEG's Framework is in alignment with international frameworks, such as the UN SEEA EA and British systems. As a practitioner in this field, I feel this structure is sufficient and not overly burdensome.

Valuation Framework is Sound: The IEG paper laying out the ecological reporting framework takes a standard approach that economists have used for many years by including use value, non-use values, and option values. The framework utilizes the proven and well accepted approach of the SEAA EA standards. Setting out the accounting area is very simple and can be accomplished with standard geographic information and surveying tools.

Determining ecosystem condition is more difficult but has been the subject of a great deal of ecological and natural sciences analysis. The list of ecosystem service categories is an improvement on the outdated MEA categories and applies well for a NAC.

Ecosystem Service Valuation: For over 30 years I have worked on ecosystem service valuation. The IEG Framework provides the best of modern economics and most practical approach to identification, quantification, and valuation of ecosystem services. Like house and business appraisals a variety of valuation

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methods and robust benefit transfer, similar to house and business appraisals provide a best and most flexible approach. Ecosystems are tremendously varied, thus, like houses and businesses one valuation approach cannot fit them all. The IEG approach is sufficiently rigorous and also flexible enough to provide reliable values for NACs.

The Measurement Approach and Valuation Approach is Sufficiently Robust: There is a vast literature and decades of experience in measuring biophysical output and stocks. These proposals in Table 2 and 3, are well accepted. I have used these methods myself in dozens of studies for firms, local governments and the federal government.

The Calculation of Asset Value is a Well Accepted Standard Approach: The equation on page 39 is totally standard for many assets, and I have used that approach in dozens of natural capital valuation studies including the Columbia River Basin, Colorado River Basin, Mississippi River Delta, Long Island Sound and associated watersheds, Matsu Basin in Alaska, Sonoma County, King County and many, many others.

Future Streams of Benefits and Life of Assets are General Well Known: Natural assets and their stream of benefits are generally better known than many other private assets. A watershed has generally produced water for millions of years. The fact that rain will fall and the watershed will collect and channel that water is more likely and sometimes better understood for longer periods than product manufacturing. Asset lives are also well know, as are the threats to assets, such as fires to forests, and the post-fire implications.

Nothing in the SEC proposed rule changes is groundbreaking except the fact that these rules have not been in place long ago.

I give this proposal my fullest recommendation for approval.

David Batker