



Fact Sheet

OVERVIEW OF NATURAL ASSET COMPANIES AND THE SUSTAINS ACT

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by

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QUESTIONS:

- What are natural asset companies and what is the status of the proposal made by the New York Stock Exchange regarding natural asset companies?
- What is the SUSTAINS Act?

THE PURPOSE OF NATURAL ASSET COMPANIES

A natural asset company is a proposed type of for-profit, public corporation “whose primary purpose is to actively manage, maintain, restore (as applicable), and grow the value of natural assets and their production of ecosystem services.”¹ Natural asset companies would hold the rights to the ecological performance produced by natural or working areas, such as national reserves or farmlands, and would have the authority to manage the areas for conservation, restoration, or sustainable management.² The ecological performance rights would be licensed like other rights, such as mineral rights or water rights, from sovereign nations or private landowners.³

A natural asset company’s core purpose would be to maximize ecological performance. A natural asset company would also be required to explore sustainable revenue-generating operations that do not negatively impact the natural assets under the company’s control and would be prohibited from conducting unsustainable activities that lead to degradation of the ecosystems the company

¹ Securities and Exchange Commission, *Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies*, 2 (2023), <https://www.sec.gov/files/rules/sro/nyse/2023/34-98665.pdf> (The term “ecosystem services” refers to the positive impacts of ecosystems and includes clean air, water supply, flood protection, productive soils for agriculture, and habitat for wildlife.).

²*Id.* at 5.

³ *Id.*

is trying to protect.⁴ A natural asset company could monetize ecosystem services that have markets, such as selling carbon credits.⁵

Investors in natural asset companies would likely be large public pension funds and other institutions wanting to add environmental credentials to their equity mix.⁶ Revenues, expenses, ecological performance data, and license information would be reported to allow investors to assess the effectiveness of the natural asset company.⁷

PROPOSED RULE CHANGE TO LIST NATURAL ASSET COMPANIES

In September 2023, the New York Stock Exchange (NYSE) proposed a rule change to amend the NYSE Listed Company Manual to add a new listing standard for natural asset companies, a concept pioneered by Intrinsic Exchange Group, Inc.⁸ The proposal would have permitted the sale of shares in natural asset companies on the New York Stock Exchange and set accounting standards for natural asset companies to track the increase or decrease of the natural assets held by the natural asset company.⁹ The proposal would have required natural asset companies to produce an annual Ecological Performance Report to characterize and value the natural assets managed by the natural asset company.¹⁰ Included in the Ecological Performance Report would be a valuation of ecosystem services produced within the natural asset company.¹¹ The valuation is performed by assigning a dollar value to ecosystem services to estimate the economic value of the natural asset company's ecosystem services.^{12,13}

⁴ *Id.*

⁵ *Id.* at 6.

⁶ Land Trust Alliance, *Natural Asset Companies, Natural Asset Credits and Land Trusts*, 3 (2024), <https://a.storyblok.com/f/120093/x/82bb5ef422/final-natural-assets-companies-faq.pdf>.

⁷ Securities and Exchange Commission, *Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies*, 6 (2023), <https://www.sec.gov/files/rules/sro/nyse/2023/34-98665.pdf>.

⁸ Self-Regulatory Organizations; New York Stock Exchange LLC; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies, 88FR 89788 (Dec. 28, 2023), <https://www.federalregister.gov/documents/2023/12/28/2023-28611/self-regulatory-organizations-new-york-stock-exchange-llc-order-instituting-proceedings-to-determine>.

⁹ Land Trust Alliance, *Natural Asset Companies, Natural Asset Credits and Land Trusts*, 1-2 (2024), <https://a.storyblok.com/f/120093/x/82bb5ef422/final-natural-assets-companies-faq.pdf>.

¹⁰ Securities and Exchange Commission, *Self-Regulatory Organizations; new York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies*, 12 (2023), <https://www.sec.gov/files/rules/sro/nyse/2023/34-98665.pdf>

¹¹ Intrinsic Exchange Group, *Ecological Performance Reporting Framework*, 31 (2023), <https://www.sec.gov/files/rules/sro/nyse/2023/34-98665-ex3.pdf>.

¹² *Id.*

¹³ Land Trust Alliance, *Natural Asset Companies, Natural Asset Credits and Land Trusts*, 3 (2024), <https://a.storyblok.com/f/120093/x/82bb5ef422/final-natural-assets-companies-faq.pdf> (The method of quantifying the values of environmental assets and services performed by natural asset companies is largely theoretical.).

The proposed rule change was posted on the Federal Register for public comment in October 2023 and the comment period was extended in November 2023.¹⁴ In December 2023, the U.S. Securities and Exchange Commission initiated proceedings to determine whether to approve or disapprove the proposed rule change.¹⁵ The New York Stock Exchange withdrew the proposed rule change in January 2024.¹⁶

SUMMARY OF THE SUSTAINS ACT

The Sponsoring USDA Sustainability Targets in Agriculture to Incentivize Natural Solutions Act of 2021 (the SUSTAINS Act) was signed into law as part of the Consolidated Appropriations Act of 2023 and expanded the United States Department of Agriculture's (USDA) authority to accept nonfederal private funds to support existing conservation programs.¹⁷ The SUSTAINS Act increased the range of existing conservation programs which the USDA may support with nonfederal funds.¹⁸ The SUSTAINS Act allows the USDA to establish subaccounts under each covered program to accept nonfederal fund contributions.^{19,20}

The SUSTAINS Act permits the USDA to provide matching funds for contributions and allows financial contributors to designate funds for a specific program, geographic area, or natural resource concern.^{21,22} The SUSTAINS Act also includes a provision allowing financial contributors to set ownership terms for certain environmental services benefits.²³ The provision applies if the activities of a producer funded by the SUSTAINS Act may result in environmental services benefits to be sold through an environmental services market.²⁴ If a sale of environmental services benefits might occur, the financial contributor may prescribe ownership terms for the

¹⁴ Self-Regulatory Organizations; New York Stock Exchange LLC; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies, 88FR 89788 (Dec. 28, 2023), <https://www.federalregister.gov/documents/2023/12/28/2023-28611/self-regulatory-organizations-new-york-stock-exchange-llc-order-instituting-proceedings-to-determine>.

¹⁵ Securities and Exchange Commission, *Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Withdrawal of Proposed Rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies*, 2 (2024), <https://www.sec.gov/files/rules/sro/nyse/2024/34-99355.pdf>.

¹⁶ *Id.*

¹⁷ Request for Public Input About Implementation of the Sustainability Targets in Agriculture to Incentivize Natural Solutions Act, 89FR 66672 (Aug. 16, 2024), <https://www.federalregister.gov/documents/2024/08/16/2024-18348/request-for-public-input-about-implementation-of-the-sustainability-targets-in-agriculture-to>.

¹⁸ Congress, *H.R. 2606 – SUSTAINS Act* (2022), <https://www.congress.gov/bill/117th-congress/house-bill/2606>.

¹⁹ House Committee on Agriculture, *SUSTAINS Act Summary*, United States House of Representatives, 2 (2021), https://agriculture.house.gov/uploadedfiles/04.14.2021_sustainsactthompsonsummary.pdf.

²⁰ Consolidated Appropriations Act, 2023, H.R. 2617, 117th Cong. § 3841(f)(1).

²¹ Request for Public Input About Implementation of the Sustainability Targets in Agriculture to Incentivize Natural Solutions Act, 89FR 66672 (Aug. 16, 2024), <https://www.federalregister.gov/documents/2024/08/16/2024-18348/request-for-public-input-about-implementation-of-the-sustainability-targets-in-agriculture-to>.

²² Consolidated Appropriations Act, 2023, H.R. 2617, 117th Cong. § 3841(f)(5).

²³ *Id.* at (5)(D).

²⁴ *Id.*

contributor's share of the environmental services benefits.²⁵ Additionally, the USDA cannot impede a producer's accrual of environmental services benefits.²⁶ The term "environmental services" is not defined by the Consolidated Appropriations Act of 2023. The term "environmental services" is, however, often used interchangeably with "ecosystem services."²⁷ Ecosystem services are defined by the USDA as "the direct and indirect benefits that ecosystems provide humans."²⁸

If you have any further questions, please do not hesitate to contact LSO Research at 777-7881.

²⁵ *Id.*

²⁶ *Id.* at (6)(B).

²⁷ Renée Johnson, *Provisions Supporting Ecosystem Services Markets in U.S. Farm Bill Legislation*, Congressional Research Service, 1 (2009), <https://nationalaglawcenter.org/wp-content/uploads/assets/crs/RL34042.pdf>.

²⁸ Climate Hubs, *Ecosystem Services*, U.S. Department of Agriculture, <https://www.climatehubs.usda.gov/ecosystem-services> (Last accessed 16 Oct. 2024).