June 17, 2022

Vanessa A Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

Re: BlueCommons, Inc. Comments on SEC Proposed Rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, Release No. 33-11042; File No. S7-10-22

Dear Ms. Countryman,

On behalf of BlueCommons, Inc., under the fiscal sponsorship of the New Venture Fund (BlueCommons), along with CK Blueshift, LLC, and the Bonneville Environmental Foundation (BEF), we submit this letter commenting on the SEC proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, Release No. 33-11042; File No. S7-10-22 ("Proposed Rule"). We appreciate the opportunity to comment on this important rulemaking.

We support the SEC's position that standard, climate-related risk disclosure is necessary, and must include water-related risks. Water-related risks can result in substantial financial loss for businesses and investors, including reduced profits, stranded assets, and adverse regulatory actions.

BlueCommons is a first-of-its-kind, non-profit "blue bank." BlueCommons was created to help meet the complex water management challenges facing the western United States. Municipalities, businesses, and communities across the U.S. are encountering water challenges, including sustaining agricultural communities, financing water supply and water infrastructure, and managing altered stream flows, groundwater depletion, wildfires, and declining landscape health. Through the operation of multiple revolving funds and the provision of critical technical assistance, BlueCommons is designed to assist the flow of capital toward innovative water quality and supply projects that combat these types of water-related challenges by filling the gaps left by traditional public finance, private investment, and

philanthropy. Without significant action from all sectors, these challenges will only increase in their severity as climatic factors become more variable and uncertain.

According to a recent analysis of water issues' impact on business assets, sixty-nine percent of listed equities disclosing to CDP reported exposure to water-related risks that could result in substantive change in their business.[1] In 2019, some US$425 billion in business value was reported by companies to be exposed to water security risks.[2] With more than two billion people living in water stressed regions worldwide,[3] this figure likely represents a gross under-reporting of actual investment risk, as it was derived from only a subset of companies that were willing and knowledgeable enough to respond to their investors and customers with risk estimates.

Unregulated and non-standardized disclosures related to water risk will continue to allow for under-reporting and inaccurately-reported exposure of assets to risks from water insecurity. Considering water as an essential business input, too much, too little, or too polluted water can pose a direct threat to businesses and their associated equities. As a result, not disclosing clearer information on water risk will be increasingly costly to companies, their investors, and other stakeholders sharing in the respective water resources, such as municipalities and homeowners. As such, we believe that the requirements for water-related risk disclosure in the Proposed Rule are fully consistent with the SEC's mission to protect investors by ensuring they are equipped with the information needed to analyze their risks and compensation decisions.

However, we respectfully suggest that the Proposed Rule does not provide sufficiently detailed requirements with regard to water-related risk to adequately guide those disclosures. We suggest the following additions to the Proposed Rule to strengthen the conditions for water-related risk disclosures:

1. *Requiring registrants to report on the percentage of their total water usage associated with water withdrawn in high or extremely high water stressed regions, as well as modifying the definitions used by the SEC for "high" and "extremely high water stressed areas";*

[1] CDP, "High and Dry: How water issues are stranding assets," 2022, pg. 4. Available online.
[2] CDP, "Cleaning up their act: Are companies responding to the risks and opportunities posed by water pollution?"2019, pg. 33. Available online.
[3] "Water stress" in this calculation refers to resource quantity, or freshwater scarcity. Ref: United Nations, "UN World Water Development Report 2021: Valuing Water," 2021, pg. 9. Available online.

2. *Requiring additional disclosure and examples to provide investors with a better understanding of the water-related transition risks facing registrants; and*
3. *Including opportunities in the requirements to address metrics and indicators used for water "offsets" in recognition of businesses' move toward "neutral" and "positive" strategies for water, which do not and will not directly translate from those used for carbon.*

1. Water use from high and extremely high water stressed regions

The Proposed Rule states that *"[a]dditional disclosure would be required if a material risk concerns the location of assets in regions of high or extremely high water stress (pg. 64)."* The rule goes on to suggest that *"[i]f the location of assets in regions of high or extremely high water stress presents a material risk, the proposed rules would require a registrant to disclose the amount of assets (e.g., book value and as a percentage of total assets) located in those regions in addition to their location. The registrant would also be required to disclose the percentage of its total water usage from water withdrawn in those regions (pg. 64)."*

We support the physical risk reporting prescribed in the Proposed Rule, particularly the requirement to report locations of assets exposed to flooding and water stress risk. In respect to the request for comment #14 on page 73, we propose that the definition of physical water-related risk should be strengthened by (1) including water quality and pollution as a risk, and (2) a more accurate, plot-level disclosure of asset locations.

While we agree that the World Resources Institute's definition of high and extremely high water stress is sufficient for the specific purpose of identifying physical risks related to water quantity or "scarcity," we respectfully suggest that more is needed. The World Resource Institute is an effective resource for issuers to assess their exposure to material water risks, and their definition of water stress is in line with the Sustainable Development Goal Indicator 6.4.2: Level of Water Stress at Basin Level: Freshwater withdrawal as a proportion of available freshwater resources (%). However, water stress itself is only a limited measure of water-risk exposure that could produce potential material costs for an individual registrant and its assets and operations. Overall water risk, according to WRI, is the measurement of all water-related risks, including indicators of physical quantity and quality, as well as regulatory and reputational risk.[4] As recognized by the United Nations Food and Agriculture Organization (FAO), water

[4] WRI Water Risk Atlas tool, 2019. Accessible online.

stress reflects only the physical availability of freshwater rather than the larger observation on whether water is suitable for human or environmental use.[5] The CEO Water Mandate and its expert partners, by contrast, suggest that water stress should in fact represent this broader and more inclusive concept, defining water stress as "[t]he ability, or lack thereof, to meet human and ecological demand for water....It considers several physical aspects related to water resources, including water scarcity, and also water quality, environmental flows and the accessibility of water (i.e., whether people are able to make use of physically available water supplies), which is often a function of the sufficiency of infrastructure and the affordability of water, among other things."[6]

Numerous studies in the past years, including those published by the World Bank Group,[7] CDP,[8] and the International Food and Policy Research Institute[9] (among other authors) have studied the impact of water quality-related risks stemming from fines and penalties, brand damage, decline in quality, etc. We suggest that disclosure could thus be strengthened by recognizing water quality and water pollution as a material physical water risk. Pollution-related risks are also a critical factor in fully evaluating material climate risks.

As such, we ask that at a minimum, the SEC mandate reporting on locations of an issuer's direct operations where poor water quality and pollution, such as eutrophication, salinization, and untreated wastewater, could result in material costs. In the Proposed Rule, acute physical risk is illustrated with an example of a short-term, quantity-related issue of flooding (pg. 63). While a critical event, flooding risk reflects only a portion of the water-related risks facing companies.

A more accurate, plot-level disclosure of asset locations is also needed in order to allow investors to properly evaluate water-related risk exposure. Location information is a key component for assessing climate risk facing a company (pg. 63); however, the importance of accurate location information is

[5] Real water savings based on the FAO's definition for "water saved": "the amount of water resulting from reducing consumption and/or non-recoverable fraction of the return flows that can be made available for alternative uses" (FutureWater and FAO, "Water Report No.46. Guidance on realizing real water savings with crop water productivity interventions," 2021, pg. 4.).

[6] CEO Water Mandate, "Driving Harmonization of Water-Related Terminology: Discussion Paper," 2014, pg. 4. Available online.

[7] World Bank Group, Quality Unknown: The Invisible Water Crisis, 2019. Available online.

[8] CDP, Cleaning up their Act: Are companies responding to the risks and opportunities posed by water pollution?, 2019.

[9] International Food Policy Research Institute & Veolia, The murky future of global water quality: New global study projects rapid deterioration in water quality, 2015. Available online.

arguably most relevant to water-related risks, which are highly location-specific; water availability can vary significantly even within relatively water-rich or water-poor regions.

Water risks are widely understood to be local risks. Water-related phenomena – such as lower water tables, depleted surface reservoirs, inconsistent or decreased precipitation, or flooding – exist and impact a very specific geographic location and must be addressed in that same location. Similarly, the degree of severity that an asset is exposed to is a direct function of the water-related factors (such as the above-mentioned phenomena) present where that asset sits. Disclosure of location by general regions, or even by basin, as contemplated in the Proposed Rule, leaves investors unable to accurately calculate a company's true value at risk from water. Disclosing GPS coordinates would address this risk. Thanks to the wide availability of satellite data and modeling software, companies can (and already do) access this information. This is easy data for issuers to report, but difficult and costly for vigilant investors to compile.

Water use and environmental condition normally turns into a material risk for a business and its investors depending primarily on the location of their assets.[10] Disclosure of assets in high and extremely high stress regions should thus be as geographically accurate as possible. As such, we urge the disclosure of GPS coordinates of registrants' assets information readily available to registrants, and necessary for any meaningful analysis of water risks. Putting this data in the hands of investors will allow them to run their own vulnerability assessments on corporate assets and determine the level of risk they are willing to take.[11]

2. Water-related transition risks

The proposed rule defines transition risks to mean *"actual or potential negative impacts on a registrant's consolidated financial statements, business operations, or value chains attributable to regulatory, technological, and market changes to address the mitigation of, or adaptation to, climate-related risks, such as increased costs attributable to changes in law or policy, reduced market demand for carbon-intensive products leading to decreased prices or profits for such products, the devaluation or abandonment of assets, risk of legal liability and litigation defense costs, competitive pressures associated with the adoption of new technologies, reputational impacts (including those stemming from*

[10] Ceres, Agricultural Supply Chains as a Driver of Financial Risks, 2017. Available online.

[11] Julie Gorte and Matthew Wright, "Seeking coordinates: A unique engagement on physical climate risk," Impax Asset Management, 2021. Available at: impaxam.com.

a registrant's customers or business counterparties) that might trigger changes to market behavior, consumer preferences or behavior, and registrant behavior. (pg. 458)"

Under Item 1502(a)(1)(ii), the Proposed Rule would require registrants to discuss climate-related risks, specifying whether they are physical or transition risks. In the case of transition risks, the registrants must describe the nature of the risk, including whether it relates to regulatory, technological, market (including changing consumer, business counterparty, and investor preferences), liability, reputational, or other transition-related factors, and how those factors impact the registrant. The Proposed Rule further explains that a registrant that has significant operations in a jurisdiction that has made a GHG emissions reduction commitment may be exposed to transition risks related to the implementation of the commitment (pg. 464).

We urge the SEC to mention water use limitations, whether mandatory or voluntary in nature, as examples of potential transition risks. Some water-related risks are not always immediately apparent or accurately captured by the physical risk analysis, which as noted above is highly based on location or how much water is withdrawn by a single user. A more qualitative analysis of transition risk should also be required to thoroughly assess a user's exposure to water-related transition risk. While we recognize that the transition risks listed within the proposed rule may not be meant to be exhaustive, their sole focus on carbon or GHG emissions may preclude the disclosure of additional information that is critical to assess the degree of water risk facing businesses, assets, and operations.

Although transition risks are most commonly associated with policy or regulatory limitations, taxes, or stated reductions in emissions as result of efforts to adapt to a lower carbon intensive world, climate change can also create water-related transition risk. One of the most immediate and tangible ways climate change manifests itself is through changes in the hydrologic cycle.

For example, communities which are currently facing water scarcity, prolonged drought, or aridification may be required to make a strong shift towards water efficiency and resilience in future years, to support the people and businesses that depend on these resources. These transitions can require potentially massive investments in replacement water supplies, water infrastructure, new efficiency technologies, or substantial alterations to business processes, and can also affect both regulatory requirements and the public acceptance of water demand associated with particular business applications in comparison to other business, public, or environmental uses and values. In addition,

areas facing the challenges of climate-related aridification may face worsening scarcity conditions over time, such that water use reductions and limitations, whether voluntary or involuntary in nature, may be expected to become more prevalent in the future.

Generalized hydrologic or geographic information is also not always sufficient to conduct this type of analysis. Factors such as water source (municipal, surface, or groundwater), water rights entitlements and allocations, and public perception should be considered. For example, in prior appropriation systems, water allocation is subject to a complex priority system where potential water shortages may not affect all users in the same manner or at a similar time. Moreover, in places where groundwater supply is currently unregulated, future regulation or raised awareness of groundwater pumping may increase costs or cause significant disruption for some business operations. Understanding the types of nuances that may exist around water-related transition risk will help businesses and the public better evaluate whether future water shortages have the potential to increase business costs, disrupt operations, or in some cases evolve into reputational risk.

Considering water-related transition risk is also in line with the TCFD recommendations report, which includes policy and legal risks within its definition of transition risk and includes water within some of the examples "Policy actions around climate change continue to evolve. Their objectives generally fall into two categories—policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change. Some examples include implementing carbon-pricing mechanisms to reduce GHG emissions, shifting energy use toward lower emission sources, adopting energy-efficiency solutions, encouraging greater water efficiency measures, and promoting more sustainable land-use practices."[12]

Additional consideration of water as a transition risk as part of SEC's required disclosures will help the public assess water risk and mitigation actions on a user-specific level and identify potentially stranded assets within a portfolio more accurately.

3. Metrics and indicators for water offsets, separate from carbon offsets

Among its requests for comment, the Proposed Rule asks "*If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the role that the offsets or RECs play in its overall*

[12] TDCF, "Recommendations of the Task Force on Climate-related Financial Disclosures," 2017, pg. 5. Available online.

strategy to reduce its net carbon emissions, as proposed? Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way? Are there specific considerations about the use of carbon offsets or RECs that we should require to be disclosed in a registrant's discussion regarding how climate-related factors have impacted its strategy, business model, and outlook (pg. 93)."

As with its treatment of transition risks, the Proposed Rule only directly addresses carbon emissions when discussing the disclosure of offsets and credits. While the disclosure of offsets and credits is obviously critical in the carbon emissions context, the importance of establishing a standard definition around offsets and credits, is also highly relevant to water. Over the past decade, companies have demonstrated interest in pursuing substantially similar "net positive" or "neutral" or "offset" strategies in connection with water use as they have in connection with strategies related to carbon emissions. Given the essential connections between water and climate, water stewardship strategies and claims warrant at least as much attention in the Proposed Rule as those for carbon. Importantly, they should also be considered separately from carbon, acknowledging that carbon frameworks cannot be transferred to water. As discussed above, water metrics require unique consideration of factors including timing of use, source, relevance claims and geography.

Due to these factors, determining meaningful impact of corporate mitigation and adaptation strategies is more complicated with respect to water than it is with regard to carbon emissions. While some carbon offsets and credits are framed within established quantification and verification mechanisms – which increases the confidence and trustworthiness of those claims without the need for additional disclosure on their underlying projects – the current state of "water offset credits" (or "net positive" or "neutral" actions supported as a part of a corporate water strategy) is more incipient and requires complex analyses. As already discussed in this letter, water use has implications at a very local level and resulting risks and insecurity are experienced by ecosystems, communities, and downstream users in various ways. Actions that businesses may claim to contribute to water neutrality require close consideration. For example, while carbon emissions goals share a desired outcome on a global level, regardless of where they occur, the same is not true for water offsets. Water's influence on local watersheds and its distinct attributes do not allow for it to be easily or broadly commoditized or to produce outcomes that are relatively fungible from place to place.

Requiring registrants to provide additional, clarifying information when they make claims of offsetting their impact or achieving water neutrality will thus increase transparency and prevent statements about

net water use that may be misleading. The Proposed Rule should be expanded to include explicit guidance for a registrant's disclosure of information pertaining to water offsets so investors can determine whether the offset actions are meaningfully contributing to real water savings,[13] risk mitigation, and sustainability. At a minimum, registrants that make claims around water neutrality or water positive actions should provide sufficient guidance regarding the approaches and actions that they are taking to reduce their water footprint and should additionally report their methods for a) quantifying and verifying water offsets and b) demonstrating the relevance of any offsets or actions to address shared water challenges.

Summary

Regulated disclosures of water risk exposure are critical, as the severity of water stress and insecurity increases across all basins of the world. Industries and businesses that identify no material risks at present are likely to experience physical and transition risks in the future. Water and hydrological systems are inherently dynamic, particularly under conditions of climate fluctuations; periodic updates to water risk assessments are needed.

BlueCommons**,** CK Blueshift, LLC, and BEF thank you for the opportunity to comment on this important and timely Proposed Rule. We welcome any questions or discussion related to our comment. Please contact Katherine Isaf, Project and Operations Manager at BlueCommons, at [redacted].

Respectfully submitted,

[signature page follows]

[13] See footnote on page 4.

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