Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany

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CC: European Commission, DG FISMA

Ten suggestions for the revision of ESRS Set 1: Initial ideas by the DRSC Sustainability Reporting Technical Committee

Dear Patrick

On behalf of the Sustainability Reporting Technical Committee, I am writing to provide a number of conceptual ideas for the simplification of European sustainability reporting obligations.

The DRSC supports the policy objectives of the EU Green Deal and the Sustainable Finance Action Plan. We also welcome the ESRS revision as announced by the European Commission in its Omnibus-1-Proposal as of 26 February 2025 which aims at simplification and streamlining of reporting requirements. This provides an important opportunity to significantly reduce bureaucratic burdens for European undertakings as well as enhancing the practicality of the standards.

Having been involved in the development of the ESRS from the outset, not least through our involvement in EFRAG itself, we have always made clear that we need to effectively balance information needs by stakeholders with the ability of undertakings to deliver such information. Our ongoing outreach initiatives to preparers and users have shown that there is a number of conceptual points where ESRS could be improved going beyond the mere reduction of data points. In this regard, real change is needed. We would like to share these conceptual ideas with you in the annexed paper.

To demonstrate the transformative impact of undertakings, the reporting based on ESRS needs to show risks and opportunities as well as positive and negative impacts in a balanced manner. Currently, the ESRS are not properly balanced in this regard: Undertakings are effectively compelled to give greater weight to negative impacts and risks, i.e., to assume the worst-case scenario. In our view, the DR should also be reviewed in this regard and amended accordingly.

From our point of view, the emphasis on fundamental core principles is an important prerequisite for any standards that govern corporate reporting if the reporting is intended to be meaningful for users. Although ESRS contain such principles labelled "qualitative characteristics of information" we believe these should be given far more prominence. In this context, we recommend to clearly introduce the principle of fair presentation or, at least, to clarify this is meant by "faithful representation". This goes hand-in-hand with the need to better report on the management's perspective, also known as the management approach. This would allow to better judge of what is actually done in these undertakings to improve their sustainability performance. In addition, this would be in line with the approach already taken in financial reporting.

If you would like to discuss our ideas further, please do not hesitate to contact me.

Kind regards

Georg Lanfermann

President

Appendix

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April 2025

Preamble

The Omnibus proposals of 26 February 2025 constitute a major shift in the EU corporate reporting landscape. The German accounting standards setter, DRSC, has closely followed this development and submitted a position paper including suggestions for changes to be envisaged for the CSRD legislative framework at the end of January 2025. One of these suggestions concerned a clear demand to EFRAG to revise the sector-agnostic ESRS Set 1 with a view to reduce bureaucratic burden for undertakings.

During past weeks, DRSC has entered into an intensive dialogue with wave 1 undertakings to gain immediate insights into ESRS Set 1 reporting practices and related bureaucracy issues. Based on these outreach activities, and following in-depth discussions in our Sustainability Reporting Technical Committee meetings, we concluded on the suggestions as explained below. These suggestions have been discussed with a clear commitment to the political goals of the EU regarding the necessary transition of the European economy.

Suggestion No. 1: Give prevalence to a principles-based approach emphasising fair presentation; introduce the management approach

Appendix 1 of the ESRS 1 contains qualitative characteristics of information and respective descriptions. However, ESRS attribute only minor relevance to these qualitative characteristics; therefore, they do not play a particular role in ESRS. As a result, reporting under ESRS is subject to very strict limitations of the specific disclosure requirements, including the presentation of disclosures, which constitute high effort for undertakings and little benefit for users. Examples of this include the relation between IROs and PATs (see suggestion No. 7 below), or the frequent repetition of information throughout the sustainability report.

We believe that undertakings need significantly more discretion in reporting in order to provide useful sustainability information. In other words: It is necessary that the qualitative characteristics must be given the role of overarching principles, as is the case in other reporting frameworks. In addition, it should be considered to make better use of the concept of “fair presentation” which is a widely accepted principle of corporate reporting. We note that ESRS 1 mentions the characteristic “faithful representation”, but we believe this should be clearly aligned with the principle of “fair presentation”. Furthermore, the “fair presentation”-principle could be complemented by the concept “substance-over-form” which would open leeway to present disclosures according to the undertaking’s organisation of management and business. This would directly link to the management’s perspective. We are clearly committed to conveying the management perspective as a means to provide useful information. This management approach is a generally accepted principle for the management report. We therefore believe that it must apply to all content of the management report, including the sustainability report.

When emphasizing the concept of “fair presentation”, as a result, both, undertakings and their external assurance service providers alike could achieve a more holistic approach to assessing the disclosures determined by the undertaking. In addition, it could also help external assurance service providers to assess the substance of the report, rather than assess all disclosures on an individual level.

We further believe that strengthening overarching principles including the management approach would also support our suggestions below. This further includes more discretion for undertakings to locate information on multiple disclosure requirements at one place instead of repeating these throughout the report (e.g., centralised reporting on remuneration metrics or grievance mechanisms) or to locate disclosures in the sustainability report in general (e.g., the IRO-2 index) or to the decision to disclose. Currently, ESRS are perceived as prescribing a rigid structure for the sustainability report which could be more flexible when strengthening overarching principles. Furthermore, it would clarify that the list of topics, sub-topics and sub-sub-topics according to ESRS 1.AR16 does not need to be read as a checklist.

Advantage of suggestion No. 1

Suggestion No. 1 has a tremendous impact for the understanding of the ESRS Set 1 and the resulting specific reporting requirements. The focus on the fair presentation should, in our view, form the basis for the ESRS revision It would allow undertakings to tie the content and presentation of sustainability information more closely to their actual organisation and business. This would eliminate the very complex and capacity-intensive exercise of converting an undertaking's individual understanding of its organisation and business into a rigid reporting scheme which, in fact, seldomly fits the business environment. Undertakings in waves 1 and 2 could benefit from this simplification immediately.

Suggestion No. 2: DMA – Addressing gross risks in a more meaningful way

Within the ESRS and accompanying Implementation Guidance on the Double Materiality Analysis (DMA) the concept of establishing materiality of potential impacts based on gross risks remains unclear. There is an ongoing debate on whether (and to which extent) instruments or actions in place to avoid negative impacts can be taken into account in the assessment of potential impacts' materiality or not. ESRS materials are currently understood to prescribe a worst-case consideration (of gross risks of potential impacts) as matter of principle. As a result, negative impacts and risks are overstated in the sustainability report to a great extent, e.g., anticipated negative financial effects are exaggerated, undertakings must apply an assumption whereby negative impacts in the supply chain cannot be mitigated at any case.

Avoidance and mitigation measures – say a sewage treatment system as an intuitive example – aim at lowering the probability of a given negative impact towards zero. Therefore, we believe that an undertaking's measures designed to avoid negative impacts or to mitigate these should be better taken into account in the DMA because they can result in a future negative impact being much less probable or even only hypothetical. While we acknowledge that it is challenging to specify a common baseline for differing sustainability matters, we believe it is necessary to establish a clearer understanding of when avoidance or mitigation matters are to be considered when evaluating the materiality of potential impacts. This implies that undertakings will be allowed to assess the materiality of such impacts based on a net-approach if (1) measures, systems or processes to avoid negative impacts have been established and (2) there is no evidence that these measures, systems or processes are not effective. However, this needs to be explicitly clarified in ESRS. We note that EFRAG is already working on an amendment to IG 1 "Materiality assessment"; however, we believe that a clarification in ESRS is necessary.

Advantage of suggestion No. 2

Suggestion No. 2 aims at focusing an undertaking's DMA efforts to a reasonable degree to net risks. Such an DMA approach would particularly help undertakings of wave 2, but clarification could also be beneficial for wave 1 undertakings if it was considered as part of a revised Set 1 or, if not feasible and less preferred, as part of the ongoing EFRAG discussion regarding Implementation Guidance on "Gross vs. net".

Suggestion No. 3: Clarify that the scope of fully consolidated group undertakings refers to financial reporting; remove the concept of operational control

As a matter of principle, the scope of undertakings included in the consolidation procedures of a group company covers the parent undertaking of a group and all subsidiaries. However, for reasons of materiality, a parent undertaking may conclude that not all subsidiaries are included in the consolidation. As a result, one or more subsidiaries are not consolidated, because these are not material for the group financial statements to provide a fair presentation of the financial performance and position of that group. If a subsidiary is not consolidated in the group financial statements (i.e., the consolidated financial statements), its assets, liabilities, income, expenses, etc. are not recognised in the group financial statements (as opposed to consolidated subsidiaries). The group balance sheet contains the value of the investment associated with that subsidiary instead.

In our view it is essential that the scope of group undertakings included in the consolidation for the purpose of sustainability reporting is identical to the one used for the purpose of financial reporting. From our experience this is typically the case as material impacts caused by the undertaking over time usually also result in material financial effects for the undertaking. In this context, it should be remembered that the issue of reporting boundaries is subject to a separate consideration and will result in particular reporting outside the scope of group undertakings.

For the transformational effect of all the sustainable finance regulation, including the sustainability reporting, putting sustainability issues and financial issues on the same level of importance is the key aspect. In other words: An undertaking's management shall consider both aspects equally and in connection when taking decisions. Connecting sustainability aspects and financial aspects in reporting is also referred to as connectivity.

However, connectivity of financial and sustainability reporting is hampered when KPIs are combined where the numerator and denominator do not share the same basis. We note that connectivity is currently not well developed in ESRS, in some circumstances the standards require references or reconciliations to line items in the financial statement, e.g., ESRS E1.34 on energy intensity, ESRS E4.AR18 on Capex/OpEx related to biodiversity. In particular, combined metrics such as energy intensity are of low information value or might even be misleading if their elements (energy consumption, net revenue) were measured on the basis of different scopes of consolidation. In this case, additional explanations and reconciliations would be necessary.

As a default solution, undertakings should apply the scope applied for the consolidated financial statements as a basis for reporting on sustainability issues. However, undertakings may reconsider the financial consolidation scope and may decide to extend the scope of the financial consolidation if in exceptional circumstances sustainability issues arise in so far non-consolidated subsidiaries. Alternatively, companies could consider such sustainability issues as part of their reporting on value chains. Although the ESRS only require a few metrics for the value chain, undertakings in the value chain are part of the DMA and therefore part of the reporting boundaries.

Looking at administrative burdens, there is also a clear case for dropping the concept of "operational control". The concept of operational control is currently not used in financial reporting and its inclusion into ESRS can be traced back to a misunderstanding: Sustainability experts reported to a respective CDP survey that they worked with the operative control concept in their undertaking but had not been aware of what that actually meant due to a lack of familiarity with financial accounting concepts.

The use of "operational control" as a concept has resulted into a high effort for undertakings to (1) understand the exact meaning of the concept, (2) identify deviations from the scope of the consolidation as set so far and (3) reassess disclosures to be made under the assumption of

operational control. We therefore urgently request that this concept no longer be applied in the context of ESRS.

To reap the benefits of our suggestions, we urgently recommend a corresponding clarification on the scope of consolidation already at Level 1 legislation, i.e. in the Accounting Directive. To the extent this cannot be achieved, a clarification in the ESRS is essential; the elimination of the concept of "operational control" is a clear case for a change in ESRS.

Advantage of suggestion No. 3

Suggestion No. 3 would help undertakings to have a clear understanding of the scope of undertakings to be included in the consolidation efforts at group level. By referring to financial reporting, it would significantly reduce the reporting burden because the proof of immateriality of financially immaterial subsidiaries would not have to be provided at the level of individual disclosure requirements, as the ESRS currently suggest. Furthermore, it would put an end to have undertakings dealing with the concept of operational control. This would facilitate the work on corporate reporting at group level and eliminate particular situations where additional work is to be performed to include unnecessary explanations and reconciliations in group reporting and to apply different concepts of what the term reporting entity means. This measure could immediately benefit undertakings in wave 1 and, once reporting obligations are in place, undertakings in wave 2.

Suggestion No. 4: Value chain – Strengthening a risk-based approach for the DMA

The disclosure on the stages of the value chain taken into account in the undertaking's DMA is an important information for all stakeholders. In our view, however, the ESRS imply an overly formal approach to the consideration of the value chain in the materiality analysis, which requires a sequential detailed analysis of the business partners of all tiers (starting with Tier 1 to Tier n). Instead, we recommend a risk-based approach drawing on publicly available information, as we stated in our comment letter to EFRAG dated 6 August 2022. Publicly available information could be sector analyses (e.g. audits/assessments from sector initiatives, product/country/sector risk analysis) or other public databases (e.g. Human Rights Risk Map, Children's Rights in the Workplace Index, Water Risk Filter). On the one hand, the risk-based approach would not limit the consideration of the value chain to Tier 1 relationships but extend it to relevant Tiers beyond Tier 1. On the other hand, reporting would be based on the undertaking's practice and thus provide a fair depiction of the undertaking's behaviour.

For the risk-based approach to analysing IROs in the value chain, as described above, we also consider a reasonable effort criterion to be appropriate making active use of obtaining public information.

In order to find an effective approach to a risk-based approach we strongly recommend anchoring such an approach already in Level 1 legislation.

Advantage of suggestion No. 4

Suggestion No. 4 also aims at streamlining an undertaking's DMA efforts with regard to the value chain. Specifically, it aims at a risk-based approach to the value chain drawing from the specific facts and circumstances, which would allow for a more relevant presentation of an undertakings risk and impact management. This approach would further reduce the reporting burden as it avoids the extensive analysis of each single stage of the undertaking's value chain, which in addition, does not seem expedient for reporting purposes. Again, such an DMA approach could help both wave 2 undertakings and wave 1 undertakings as part of a revised ESRS Set 1.

Suggestion No. 5: Value chain – Easing the use of estimates

ESRS 1.69 addresses the case that an undertaking cannot collect primary date about its upstream and downstream value chain after putting in reasonable efforts to do so. In these circumstances, the undertaking is allowed to estimate the information needed to comply with the requirement to include value chain considerations in its own reporting.

This requirement represents a major challenge for undertakings. Although primary data is generally preferable to estimates, the situation described in ESRS 1.69 as an exceptional case is far more common: Information about impacts of an undertaking's business associated with its value chain require data relating to products and services obtained by that undertaking from its suppliers. As an example, for determining Scope 3 greenhouse gas emissions associated with an undertaking's business it needs information on the greenhouse gas footprint related to the product obtained, rather than the supplier's total footprint. However, those data are not available on a primary data basis. Instead, undertakings can make use of industry benchmarks or databases, which are also not regarded as primary data sources but contain estimated data. However, the ESRS only allow the estimation of data if the 'reasonable effort' condition is met. This condition involves a high degree of effort, which in almost all cases does not even result in primary data being obtained after reasonable effort has been made.

The requirement poses a further challenge: It promotes the trickle-down-effect to undertakings that are part of the value chain of reporting undertakings. This is because the latter are in fact required to obtain primary data from their suppliers and customers instead of seeking those data from public sources including reports prepared by these undertakings on the basis of the voluntary reporting standard. Clearly, the European Commission's goal of reducing the trickle-down effect is therefore more likely to be jeopardised.

We strongly recommend that the ESRS allow using public information or estimates with regard to the value chain without such a strict condition. In other words, the option for value chain estimates should be much more easily available. Instead, undertakings should be required to provide information on the extent of primary and secondary data used for their reporting. This would further enhance transparency on how the undertaking addresses the value chain in a meaningful way.

Advantage of suggestion No. 5

Suggestion No. 5 would harmonise the requirements in ESRS with the data collection and reporting tools actually available. It would further reduce the costs of reporting as undertakings would not need to carry reasonable effort before they are allowed to use estimations or public data for information necessary to comply with the reporting requirements associated with the value chain.

Suggestion No. 6: Remove reporting requirements with unreasonable cost-benefit profile, in particular with regard to anticipated financial effects

ESRS contain certain disclosure requirements that result in high effort for undertakings to comply with but low information value for users. One particular example is the disclosure requirement both in ESRS 2 and in the E-ESRS to provide information on anticipated financial effects, i.e., financial effects which are not already reflected in the financial statements according to Annex II to the ESRS. The transitional provisions set out in Appendix C of ESRS 1 foresee that an undertaking may omit these disclosures for the first year of application and may further comply with the requirement by reporting qualitative disclosures for the first three years of application.

In financial reporting, future financial effects are regularly taken into account when preparing financial statements. Examples include the measurement of fair value of assets and liabilities

and recognition of liabilities on the basis of future payment obligations. That said, the consideration of future financial effects in financial statements is subject to certain conditions, namely recognition and measurement criteria. These aim to ensure that financial statements provide fair and reliable information. Therefore, certain future financial effects are excluded from being recognised in financial statements because they do not represent fair and reliable pieces of information as they come with too high uncertainties. Finally, reporting practice has revealed that anticipated financial effects (in the aforementioned understanding) can only be calculated with very high effort but lack reliability and are, therefore, of little information value. By consequence, the associated cost and their benefit are not well balanced.

Generally, future financial effects from opportunities and risks, if not reflected in the financial statements, are discussed in the management report. Here, the provision of quantified data follows a strict management approach. Quantified data is only required if the management itself quantifies such effects for steering purposes. However, this does not only require relevant knowledge and experience but also the relevance of a quantification.

Accordingly, we think a quantification should only be voluntary. Narrative disclosures seem nevertheless helpful and, thus, should remain to be required.

Unreasonable cost-benefit ratio may not only pertain to anticipated financial effects. We suggest that EFRAG conducts a thorough review of the existing ESRS Set 1 to identify further disclosure requirements with unreasonable cost-benefit profile and revise these accordingly.

Advantage of suggestion No. 6

Suggestion No. 6 would result into voluntary quantifications of anticipated financial effects for the purpose of sustainability reporting. This saves companies of considerable time and effort once the transitory period of three years expires. Furthermore, it would reduce the number of disclosures with little information value would align the requirements with the overall approach for the management report.

Undertakings of wave 1 and wave 2 would benefit from this relief as they would not need to quantify these effects after the end of the transitional period.

Suggestion No. 7: Refine the requirements on the interaction of policies, actions and targets and their relation to IROs to better reflect undertakings' practices

<u>Interaction of policies, actions and targets (PATs)</u>

The situation where policies, actions, and targets are linked to each other in a strict "1:1:1" relationship rarely occurs in practice. In contrast, practice shows a variety of relationships, for example, a policy may relate to several targets, or a combination of actions aim at a specific target and vice versa. It is (1) very difficult to present, policies, actions and targets as if they were exclusively related to each other in a "1:1:1" relationship, and, (2) doubtful that this presentation constitutes meaningful information for users. Therefore, we believe that ESRS should clarify that this exclusive relationship is not required.

<u>Interaction of PATs and IROs</u>

Sub-sub-topics as included in ESRS 1.AR16 are often attributed to several categories of IROs (or several "IROs"). In other words, there are situations where one sub-sub-topic can have more than one IRO. Furthermore, as with policies, actions and targets (PATs) outlined above, ESRS are understood to assume a one-to-one relationship between PATs on the one and IROs on the other hand, because ESRS 2 requires disclosure on policies to address IROs, and the glossary puts policies in the context of sustainability matters.

This often results in PATs not being considered as PATs in the spirit of ESRS if they do not refer to a particular IRO. Again, such a "1:1" relationship rarely exists in practice. To give an

example: PATs can be designed to address one IRO, multiple IROs, a sub-sub-topic but no dedicated IRO, or even just a topic, etc. Regardless of this, ESRS force undertakings to create artificially a ”1:1” relationship of PATs and IROs, which is clearly not meaningful for the aforementioned reasons. Therefore, we believe ESRS should clarify that such “1:1” relationship is not necessary.

Advantage of suggestion No. 7

Suggestion No. 7 would allow undertakings to better present, in a meaningful way, both the interaction (1) between policies, actions and targets, and (2) policies, actions and targets in connection with material impacts, risks and opportunities, according to their specific facts and circumstances. As a result, the sustainability report would include fair information as corporate practice would be reflected more accurately, given that undertakings could adapt disclosure requirements to how sustainability is addressed in the corporate landscape. Furthermore, avoiding an artificial presentation of disclosures means lower cost of reporting as undertakings would not be forced to develop a narrowly prescribed form of presentation.

The higher level of discretion as described above could, in particular, help wave 2 undertakings in conducting their DMA and in the presentation of sustainability information. It will also help wave 1 undertakings in preparing their future reports.

Suggestion No. 8: Eliminate redundant reporting requirements throughout ESRS

ESRS prescribe similar or literally the same disclosures multiple times resulting in repetitive content of the sustainability report. On the one hand, the general disclosure requirements of ESRS 2 are further specified by topical ESRS. Examples include the GOV-Disclosure Requirements which are specified in ESRS E1 (GOV-3) and ESRS G1 (GOV-1); much more repetition is seen in the context of SBM- and IRO-1 disclosures. This causes redundancies in the sustainability report that need to be avoided as such repetitions may hamper the comprehensibility of sustainability reporting.

Furthermore, we note particular elements of disclosure being addressed multiple times also across the topical standards of ESRS Set 1 (i.e. excluding ESRS 1 and ESRS 2), e.g. disclosures on the protection of whistleblowers (including whistleblower reporting channels and grievance mechanisms) in all S-ESRS. Following, reporting undertakings need to take these up on the basis of a specific topical ESRS even if practice is organised on a different basis; be it centrally or based on sites/locations. As an example for the latter case, many construction undertakings have organised their grievance or whistleblower mechanisms per construction site, regardless of whether these relate to own employees or employees of a subcontractor. However, ESRS require undertakings to report on this aspect twice (according to ESRS S1 and S2).

Advantage of suggestion No. 8

Suggestion No. 8 contributes to the targeted elimination of reporting requirements causing redundancies in the sustainability report. For example, a better synchronisation with the set-up of undertakings’ reporting systems helps better depict corporate practice, i.e., organisation and management. Consequently, by more focusing on corporate practice, the overall sustainability reporting could be more concise and provide more meaningful insights, resulting in a fair presentation of sustainability information.

Suggestion No. 9: Governance disclosures are important but could be significantly reduced in detail; greater focus on “managed” processes, particularly on risk management

Not only reporting undertakings benefit from the integration of sustainability aspects into their management systems but also the users of this information. In doing this, undertakings need to attach sustainability-related governance aspects the same level of attention as those intended for financial stakeholders.

On the one hand, disclosures on governance serve financial stakeholders as important information on the ability of an undertaking company to generate economic value in the future. On the other hand, such information helps other stakeholders to assess whether a sustainability-based entrepreneurial approach continues to be a guiding principle for the undertaking. This being said, we believe that GOV-5 on undertakings’ risk management and internal controls over sustainability reporting appears most relevant to stakeholders as it provides important information related to the actual and active behaviour of an undertaking’s management.

Based on insights from the first reporting season, practice has revealed that some details of the governance related disclosure requirements are less relevant for this purpose. We believe that the information on how an undertaking’s management addresses material impacts, risks and/or opportunities is important, but this is not the case, for example, for the disclosure on who informs these bodies. DRSC therefore suggests that EFRAG review of the GOV disclosure requirements more closely and reduce the granularity of such disclosures where appropriate.

Advantage of suggestion No. 9
Suggestion No. 9 helps reporting undertakings to focus on essential information both relevant for the undertaking itself and for stakeholders. This helps to significantly reduce bureaucratic burdens by not having to provide less valuable information. The more general descriptions are still subject to external assurance.

Suggestion No. 10: Strengthening interoperability with the ISSB global baseline

The ISSB and EFRAG have made great efforts to achieve interoperability between ESRS and the ISSB's global baseline. This ensures as far as possible that undertakings applying ESRS also comply with the IFRS Sustainability Disclosure Standards without significant additional effort. It is important to continue to bear this in mind in the future. On the one hand, the ESRS revision should not risk the high level of interoperability; in contrast, EFRAG and the European Commission as well as the ISSB should make every effort to narrow the remaining gap between ESRS E1 and IFRS S2. In this context, it should be specifically considered by EFRAG how to reduce the E1 reporting requirements without damaging interoperability to IFRS S2.

The importance of interoperability extends beyond the level of an individual undertaking seeking to comply with the provisions of both ESRS and the ISSB’s sustainability disclosure standards (SDS). It also concerns the exemptions available to undertakings outside the EU that are required by national law to comply with IFRS SDS but are included in the consolidated sustainability report of a parent undertaking based in the EU.

We further believe that EFRAG should focus on shaping the ISSB’s activities on amending the SASB standards in order to make the applicable in the international context and in connection with IFRS S2.

Advantage of suggestion No. 10
Suggestion No. 10 aims at an enhanced understanding of interoperability in a global context. International groups with a parent undertaking located in the EU but subsidiaries outside the

EU should not be burdened with double reporting requirements for their subsidiaries. This would allow to avoid significant cost of double reporting for EU undertakings in the future. “Closing the gap” between ESRS E1 and IFRS S2 would further reduce the cost of reporting compliance.