

CapitalQuarter

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Welcome to the May issue of CapitalQuarter...

The International Accounting Standards Board published IFRS 18 Presentation and Disclosure in Financial Statements in April last year, with the aim to improve how entities communicate in their financial statements. In this edition, we look at the key changes of IFRS 18 and explain what auditors will be focusing on.

Audit thresholds have changed. From April 2025, new regulations that raise company size thresholds will be in effect. Here we detail the size thresholds and look at the potential implications for your business.

The Corporate Sustainability Reporting Directive (CSRD) is an EU directive that affects large and listed companies both inside and outside the EU. If CSRD applies to your company, we have provided an in-depth guide to help you navigate the complexities of implementing the requirements.

For many in-scope groups, the first financial year affected by Pillar Two will be audited in 2025. Our tax team explains how you should prepare from a tax compliance and financial reporting perspective.

We also look at the regulatory requirements and challenges faced by companies looking to dual list on an overseas exchange.

We hope you find this edition useful. We are always keen to hear your comments and suggestions for future articles, so please do **get in touch**.



Joseph Archer
Partner

+44 (0)20 7516 2495
jarcher@pkf-l.com



IFRS 18: be ready for the changes

How companies present their financial statements is the focus for the new standard. Its objective is to make information more transparent and clearer for stakeholders. We look at what is new.

The International Accounting Standards Board published **IFRS 18 Presentation and Disclosure in Financial Statements** in April 2024. The new standard, replacing **IAS 1 Presentation of Financial Statements**, aims to improve how entities communicate in their financial statements. The focus is on providing relevant information that faithfully represents the general purpose financial statements, in a way that's most useful to users.

What are the key changes of IFRS 18?

- 1. Income and expenses will be classified into specified categories and presented in defined subtotals in the statement of profit or loss.

The new structure for the statement of profit or loss includes:

- Classification of all income and expenditure into these five categories:
- **Operating:** all income and expenses not classified in the categories below
- **Investing:** all income and expenses arising from investing in assets

- **Financing:** income and expenses from liabilities arising from transactions that involve raising finance, whether or not the transaction exclusively involves financing
- **Income taxes:** tax expense or tax income included in profit or loss (applying IAS 12 Income Taxes)
- **Discontinued operations:** income and expenses from discontinued operations, as defined in **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**.

All entities must follow the same classification requirements. But there are some modifications for those that invest in assets, or provide financing to customers, as a main business activity.

Although the operating, investing and financing categories may seem familiar from **IAS 7 'Statement of Cash Flows'**, it's important to note that they are not in fact similar to the categories in the statement of cash flows.

- Mandatory defined subtotals, such as operating profit or loss and profit or loss before financing and income

- 2. Enhanced general principles for aggregation and disaggregation of information in the primary financial statements and notes.

Entities must ensure that they focus on grouping items based on shared characteristics, and that their aggregation and disaggregation does not obscure material information.

IFRS 18 also includes specific requirements for presenting operating expenses. Companies must choose between presenting them by nature or by function, selecting the approach that provides the most useful information. They should consider which is the most informative way to present the main components or drivers of profitability and industry practice.

- 3. A new disclosure requirement for management performance measures (MPMs) related to the statement of profit or loss. Some companies previously used alternative performance measures (APMs) in their financial statements, but IFRS 18 aims to make the more specific MPM disclosures mandatory. This means financial statements should become more transparent and useful and help stakeholders to understand and compare the financial performance of different entities more easily.

Entities must disclose information about their MPMs in a single note to the financial statements. This should include a reconciliation between these measures and the most similar specified subtotal in IFRS accounting standards.

A management-defined performance measure is one that communicates to users of financial statements the management's view of an aspect of the financial performance of the entity as a whole. But this is not necessarily comparable to measures sharing similar labels or descriptions provided by other companies.

When does it apply?

The new standard will be effective for annual reporting periods beginning on or after 1 January 2027. But earlier application has been permitted ever since the standard was officially published, on 9 April 2024. If an entity applies IFRS 18 for an earlier period, it must disclose that fact in the notes. The UK Endorsement Board (UKEB) is currently assessing IFRS 18, but it has not yet been endorsed for use in the UK, and a decision is expected to be made prior to the standard's effective date.

Who will be affected?

IFRS 18 will affect all companies that prepare financial statements under IFRS accounting standards. Whilst it will not alter how companies recognise and measure items in their financial statements, it will affect the presentation and disclosure of information within those statements.

How should companies present comparative information?

Entities should begin preparing for IFRS 18 sooner rather than later as it could have a significant impact on the financial statements. It's particularly important to check that previous-period comparative information is available and reliable.

Companies must follow IFRS 18 retrospectively applying IAS 8. But they don't need to present the quantitative information specified in paragraph 28(f) of IAS 8 (ie it's not necessary to disclose the amount of the adjustment to each financial statement line item, nor the adjustment to basic and diluted earnings per share in the current period).

For the comparative period, they should provide a reconciliation between the restated amounts and the previously reported amounts for that period. This also applies to comparative periods included in interim financial statements. While entities may choose to present similar reconciliations for the current period and earlier comparative periods, this isn't mandatory.

What will auditors be focusing on?

Auditors are required to challenge management on their application of IFRS 18 to ensure they're complying with the new requirements. This may include, but is not limited to:

- reviewing MPMs for their alignment with the definitions and calculations used
- verifying the completeness of MPM disclosure and checking the financial statements genuinely reflect the company's performance and position as required by IFRS 18
- reviewing the reconciliation of comparatives, including assessing the categorisation of profit and loss to ensure its consistency and appropriateness.

If you would like further guidance on any of the issues covered in this article, please contact Imogen Massey or Kate Walker.



Imogen Massey
Partner
+44 (0)20 7516 2363
imassey@pkf-l.com



Kate Walker
Senior Manager
+44 (0)20 7516 2333
kwalker@pkf-l.com



Navigating the requirements of the EU Corporate Sustainability Reporting Directive (CSRD)

Find out if CSRD applies to your company. If so, we provide an in-depth guide to help you navigate the complexities of implementing the requirements.

The Corporate Sustainability Reporting Directive (CSRD) is an EU directive that affects large and listed companies both inside and outside the EU. It mandates comprehensive reporting on how companies monitor and report their environmental (E), social (S) and governance (G) sustainability matters.

The scope is particularly complex for group structures with parent companies outside the EU.

What are the origins and objectives of CSRD?

Approved in 2020, the European Green Deal had three main goals: to make Europe the first climate-neutral continent by 2050; to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels; and to plant three billion additional trees in the EU by 2030.

As part of this initiative, the European Commission adopted CSRD in April 2021. It was one of the legislative acts to improve the transparency, consistency and quality of sustainability reporting.

The directive requires the use of European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG). These standards significantly expand the scope and depth of sustainability reporting, with over 1,000 ESG data points in total.

The new directive came into force in January 2023, replacing the existing Non-Financial Reporting Directive (NFRD). But not all EU member states have incorporated this directive into national law, despite the July 2024 deadline.

Who is required to report?

The CSRD, compared to NFRD, impacts a larger number of companies. Determining whether and when your company needs to comply with CSRD is not straightforward.

The directive's implementation is phased over several years, based on a company's key characteristics, as follows:

Phase-in of CSRD reporting

Periods commencing on/or after	Reporting in	Entities in scope
1 January 2024	2025	Large EU PIEs with >500 employees, entities with debt or equity listed on EU regulated market (ie entities previously subject to the NFRD).
1 January 2025	2026	Large EU companies / groups meeting certain balance sheet / turnover / employee number criteria (see table below).
1 January 2026	2027	SMEs (excluding micro-entities) with debt or equity listed on EU regulated market, small and non-complex credit institutions, and captive insurance and reinsurance undertakings. A transitional two-year opt-out option is available for listed SMEs.
1 January 2028	2029	Non-EU companies generating a least €150m net turnover in EU and with at least one branch with €40m net turnover in EU OR at least one large or SME subsidiary with debt or equity listed on EU regulated market.

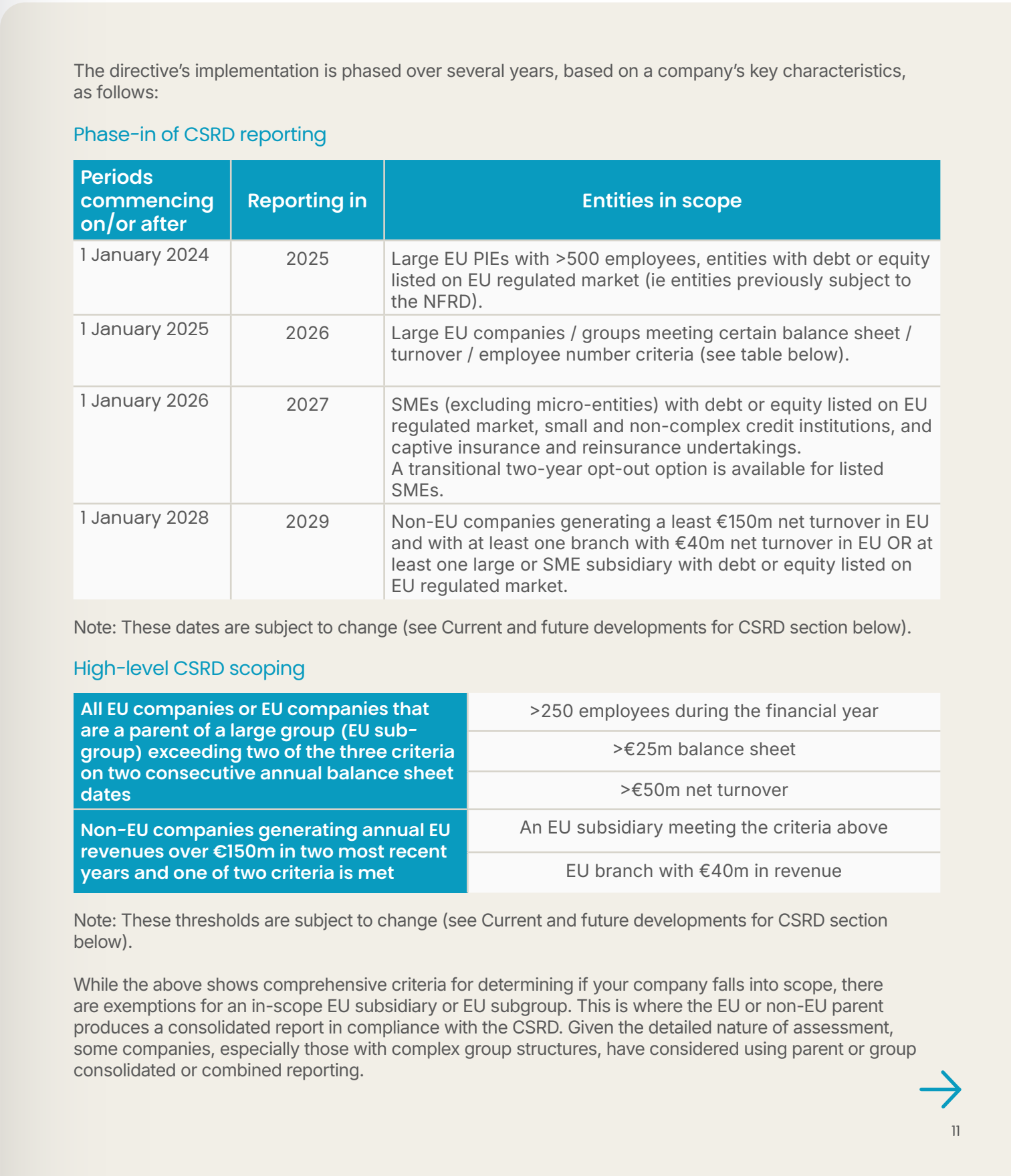
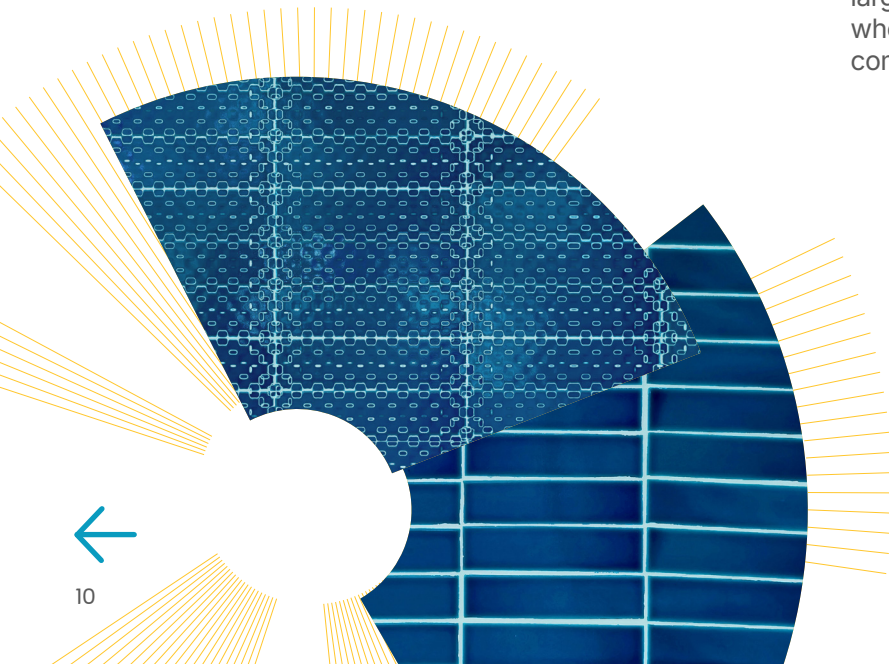
Note: These dates are subject to change (see Current and future developments for CSRD section below).

High-level CSRD scoping

All EU companies or EU companies that are a parent of a large group (EU subgroup) exceeding two of the three criteria on two consecutive annual balance sheet dates	>250 employees during the financial year
	>€25m balance sheet
	>€50m net turnover
Non-EU companies generating annual EU revenues over €150m in two most recent years and one of two criteria is met	An EU subsidiary meeting the criteria above
	EU branch with €40m in revenue

Note: These thresholds are subject to change (see Current and future developments for CSRD section below).

While the above shows comprehensive criteria for determining if your company falls into scope, there are exemptions for an in-scope EU subsidiary or EU subgroup. This is where the EU or non-EU parent produces a consolidated report in compliance with the CSRD. Given the detailed nature of assessment, some companies, especially those with complex group structures, have considered using parent or group consolidated or combined reporting.



What are the compliance challenges?

Companies in the scope of the CSRD must present a sustainability statement in their annual report in line with the relevant ESRSs. The ESRSs include two cross-cutting standards and 10 topical standards.

Below is a summary of the draft framework:

- Cross-cutting standards
- ESRS 1 - General requirements
 - ESRS 2 - General disclosures
- Environmental standards
- ESRS E1 - Climate changes
 - ESRS E2 - Pollution
 - ESRS E3 - Water and marine resources
 - ESRS E4 - Biodiversity and ecosystems
 - ESRS E5 - Resources use and circular economy
- Social standards
- ESRS S1 - Own workforce
 - ESRS S2 - Workers in the value chain
 - ESRS S3 - Affected communities
 - ESRS S4 - Consumers and end-users
- Governance standards
- ESRS G1 - Business conduct

The starting point for determining which ESRSs a company needs to report on is the double materiality assessment (DMA) process. This identifies the material impacts, risks, and opportunities (IROs) relating to sustainability matters and the applicable ESRSs. Regardless of the DMA, the cross-cutting standards in ESRS 1 and ESRS 2 are mandatory for all companies.

There are three categories of ESRS:

1. Cross-cutting standards

- ESRS 1 General requirements – describes the architecture of the ESRS, explaining drafting conventions and fundamental concepts and setting out general requirements for preparing and presenting sustainability-related information.
- ESRS 2 General disclosures – establishes disclosure requirements on the information to be provided, at a general level, across all material sustainability matters on the reporting areas of:
 - governance
 - strategy
 - impact, risk and opportunity management
 - policies and actions
 - metrics and targets.

2. Topical standards

These cover various ESG topics and are structured into 10 topical standards. The topics are then split into sub-topics and sub-sub-topics. Each topical standard provides specific disclosure requirements and data points. Topical standards are only required to be reported if the topics they cover are material to the company.

In addition, companies must determine and report on any material entity-specific topics. To help with these disclosures, companies can consider the information required under topical ESRS that addresses similar sustainability matters. There are also some transitional provisions for entity-specific disclosures in the first three years of reporting.

How do companies identify relevant topical standards?

The ESRS addresses a broad range of ESG matters. But only those that present material IROs must be included in the sustainability statement. This is where the DMA comes into play in your assessment.

Other sustainability standards, such as the ISSBs IFRS S1 and S2, adopt a single materiality approach focusing only on the company’s exposure and vulnerability to sustainability matters. CSRD is different and more onerous in requiring a DMA approach.

The DMA considers both impact materiality and financial materiality over the short, medium and long term:

- Impact materiality focuses on how the company impacts the environment, community and people (inside out)
- Financial materiality considers how sustainability matters impact the company (outside in).

To begin, companies need to assess their business context based on business activities, relationships, and affected stakeholders. This should take into account their operations as well as their upstream and downstream value chains.

This process should allow the identification of actual and potential IROs related to sustainability matters. The relevant sustainability matters could include those detailed in ESRS 1, any entity-specific matters, or GRI and SASB matters.

- Impact materiality** should assess the identified impacts based on severity and likelihood with quantitative and/or qualitative thresholds. Stakeholder engagement is deemed a highly important part of the process, and helps to gauge the severity of impacts and, ultimately, materiality.
- Financial materiality** assesses risks and opportunities based on potential magnitude and likelihood with quantitative and/or qualitative thresholds.

The DMA process results in material IROs, which form the basis of CSRD reporting.



Early compliance advantages

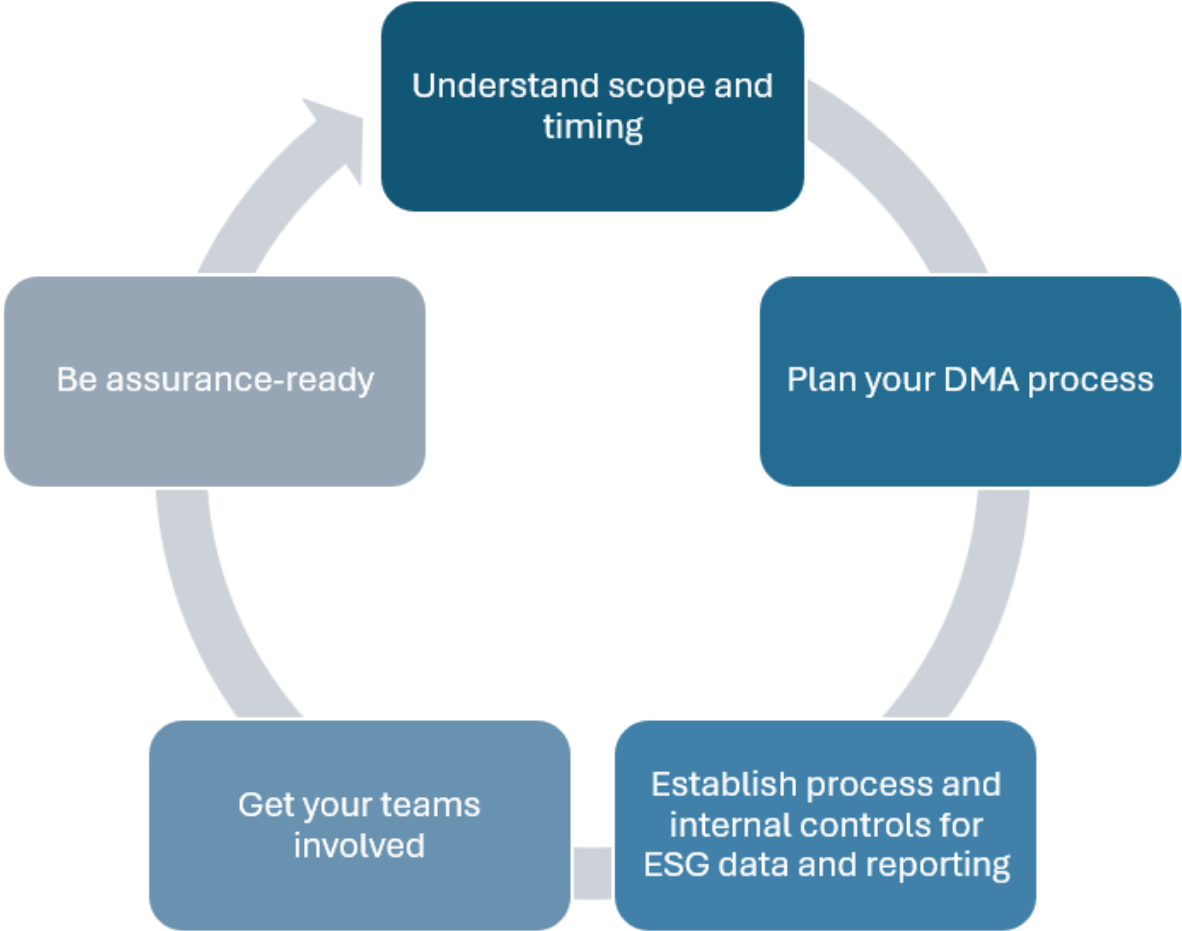
Whilst this new EU directive provides clear challenges on implementation due to the extensive data collection process, scoping requirements, and the level of interoperability with IFRS Sustainability Disclosure Standards, it also provides your company with opportunities and early compliance advantages.

CSRD can give new insights on non-financial indicators that can increase your company's competitive edge, sustainability performance, investor confidence, and transparency. Early compliance offers you the scope to assess your supply chain and identify possible future challenges that could impact your operations in the long term.

Key considerations in applying CSRD

Since the scope and depth of the reporting required by CSRD and ESRS is greater than previous sustainability reporting standards, companies should be proactive and start preparing as early as possible for this complex and time-consuming process.

Although CSRD is an EU regulation, it has an extra-territorial impact, for example on non-EU companies with debt or equity listed on an EU-regulated market and on non-EU groups with subsidiaries or operations in the EU.



Understand scope and timing: As CSRD will be phased in over several years, it's important to understand when the relevant criteria (see above) will be met and at what date reporting will be required. Groups should also consider if their different companies will meet the criteria at different stages, and whether to report at the company or consolidated level.

Plan your DMA process: The DMA process is the foundation and starting point for reporting, so it's vital to get this right and allow sufficient time to complete it. Stakeholder engagement is one of the most time-consuming elements of the DMA process. This should be done well before the reporting date to get an idea of what topics are likely to be material and indicate the level and type of disclosures needed.

Establish processes and internal controls for ESG data and reporting: As the ESRSs require a wide range and volume of data, companies should ensure that they have the appropriate processes to make the required data available, accurate and reliable. This applies especially to areas on which the company has not had to report before. The earlier the DMA is considered, the earlier these processes can be checked and any gaps or weaknesses in the data can be identified.

Get your teams involved: Given the wide range of topics ESRS covers, various individuals and teams across the company are likely to be needed to collect and prepare the data to be reported, eg finance, HR, risk, legal, procurement, and sustainability. They must all understand the requirements and their roles/responsibilities for reporting. Engage with them early.

Be assurance-ready: CSRD has a mandatory requirement for limited assurance over the disclosures. The assurance engagement covers:

- compliance with the ESRS, including the process to identify the information reported under the ESRS, ie the DMA process
- compliance with the requirement to mark up sustainability reporting, ie digital tagging (when agreed / adopted by the EU); and
- compliance with the reporting requirements of the EU Taxonomy Regulation (where applicable / reported).

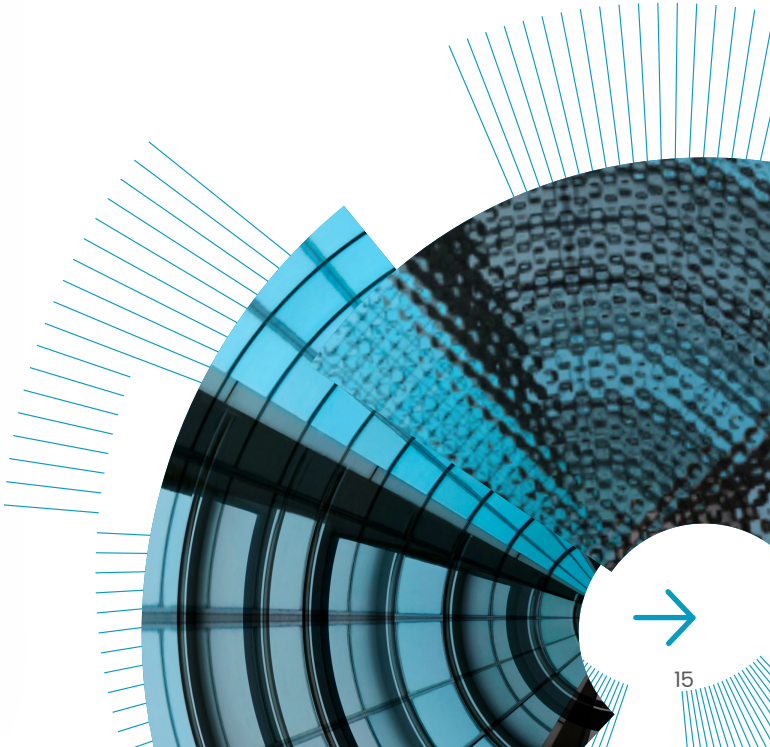
Limited assurance is a negative form of assurance. This means it concludes that nothing has come to the auditors' attention that causes them to believe that the reporting has not been prepared, in all material respects, in accordance with the applicable criteria.

Limited assurance is typically performed by the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. But the ISSB has recently developed a new assurance standard – International Standard on Sustainability Assurance (ISSA) 5000 – which is effective for assurance engagements:

- for periods beginning on or after 15 December 2026 or
- at a specific date on or after 15 December 2026.

Given the mandatory assurance requirement in the CSRD, companies must select an assurance provider – often an external auditor. The company should then engage with them early on.

To make the assurance process smoother, companies should formally document activities throughout the reporting process to create an audit trail. This should include detailed documentation of the DMA process and methodologies applied in calculating, measuring and reporting disclosures.



Current and future developments in CSRD

The landscape for sustainability is constantly changing, particularly in light of recent global political developments.

As we've said, several EU member states have not yet transposed the current directive into national law and have been pushing back on CSRD requirements. In response to this and other pressures, the EU proposed an 'Omnibus Simplification Package' on 26 February, which included some significant reforms to the CRSD (as well as the **Corporate Sustainability Due Diligence Directive** and the **Taxonomy Regulation**). The first stage was voted through European Parliament on 3 April 2025, in relation to the postponement of implementation dates as discussed above.

The key reforms are to:

1. Reduce the number of companies subject to CSRD by 80% through limiting the scope to large EU companies with more than 1,000 employees on average on their balance sheet date and at least €50 million annual turnover or €25 million balance sheet total.
2. For those remaining in scope and would have been required to report in respect of 2025 financial year, delay reporting for two years.
3. Introduce value chain cap which would limit the amount of information the companies reporting under CSRD can request from small companies in their value chain.
4. Make revisions to the ESRS including: reducing the number of data points to be reported through removing those deemed least important, prioritising quantitative datapoints and further distinguishing between mandatory and voluntary data points; clarifying unclear provisions; improving consistency with other legislation; and providing further guidance on applying the DMA process.
5. Cease the development of sector-specific standards.
6. Remove the planned transition from limited to reasonable assurance.

The proposed reforms have been submitted to the European Parliament. On 3 April, the European Parliament voted on and approved the two year delay as a first step. The reforms must then be approved by the European Council before being published in the Official Journal of the EU. Finally, the reforms will need to be transposed into national law by EU member states.

Preparing for CSRD: how can we help you?

PKF provides a package of ESG and sustainability assurance services led by a dedicated team. This includes assurance over:

- sustainability statements/reports prepared in accordance with CSRD, TCFD and the UK's CFD
- ESG metrics and reporting to private equity investors
- ESG KPIs relating to sustainability-linked loans.

For more information on the requirements of CSRD, please get in touch with Jessica Wills, Joseph Archer, Charlie Benton or Christelle Limjap.



Jessica Wills
ESG Partner

+44 (0)20 7516 2229
jwills@pkf-l.com



Joseph Archer
Partner

+44 (0)20 7516 2495
jarcher@pkf-l.com



Charlie Benton
ESG Manager

+44 (0)20 7031 6585
cbenton@pkf-l.com



Christelle Limjap
Senior Manager

+44 (0)20 7516 2328
climjap@pkf-l.com



Audit thresholds have changed: what you need to know

New regulations that raise company size thresholds will be effective for financial years starting on or after 6 April 2025. We provide a guide to the implications for your business.

In December the Government published new legislation, The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024. These increase the monetary size definitions for micro, small and medium-sized entities.

It's the first threshold change since 2016 and aims to reduce complexity, removing onerous reporting burdens on smaller entities and groups. It should also reflect price changes in the market since the last definition amendment.

The legislation explains the requirements for UK incorporated entities to qualify as 'small'. The category means they can take advantage of certain financial reporting and audit exemptions under the small companies regime. To qualify, an entity must meet the size thresholds and also cannot be excluded from the small companies regime because of other criteria.

What are the size thresholds?

The table below sets out the current and revised criteria. To be considered small, a company must meet at least two of the three.

	Micro		Small		Medium	
	Current	New	Current	New	Current	New
Turnover not more than:	£632k	£1m	£10.2m	£15m	£36m	£54m
Balance sheet total* not more than: Turnover not more than:	£316k	£500k	£5.1m	£7.5m	£18m	£27m
Monthly average number of employees, not more than:	10	10	50	50	250	250

*i.e. total assets

There is a transitional provision for these amendments which allows companies to treat them as having been applied in the previous financial year, when determining a particular company size. This relaxes the so-called 'two-year consecutive rule', which requires company size to change only when the company has met those thresholds in two successive financial years.

This means companies and LLPs can benefit from the uplift in thresholds as soon as possible after the legislation comes into force, even if they didn't meet the thresholds in the previous year. For example, a company with a year end of 30 April 2025 and turnover of £14m, total assets of £7m and 40 employees in both the current and previous year, could use the new thresholds immediately. It would therefore be considered small. After the year of transition, the two-year rule will continue to apply as usual.

Qualifying as a small company

To be clear, the new rules do not alter the eligibility criteria which all entities must meet in addition to the size thresholds. Despite the size definition change, if an entity is ineligible in other ways (either in its own right or as part of a group), it will not be able to change the regime it can apply. Rules for the directors' report can be the exception (see below).

But in most cases staying below the new thresholds means a company qualifies as small. In doing so, it benefits from audit exemption and can prepare reduced disclosure financial statements. A company will not be able qualify for the small companies regime, though, if at any time within the financial year to which the accounts relate it was ineligible (either individually or as a member of a group).

Ineligible entities include:

- public companies
- authorised insurance companies
- banking companies
- e-money issuers
- MiFID investment firms
- UCITS management companies
- companies that carry on insurance market activity
- funders of master trust schemes
- members of an ineligible group

An ineligible group would include:

- a traded company – one where any of its transferable securities are admitted to trading on a UK regulated market
- a body corporate (other than a company) whose shares are admitted to trading on a UK regulated market
- a person (other than a small company) who has permission under Part 4A of the Financial Services and Markets Act 2000 (c. 8) to carry on a regulated activity
- an e-money issuer
- a small company that is:
 - an authorised insurance company
 - a banking company
 - an MiFID investment firm
 - a UCITS management company
 - a person that carries on insurance market activity
 - a funder of a master trust scheme

AIM-listed companies do not meet the definition of a 'traded company' and therefore do not automatically trip the group into being ineligible.

What are the financial reporting implications?

Companies able to move down a size category will see a reduction in reporting requirements. It's expected that this will exempt about 14,000 companies from the additional disclosures required by a medium-sized company. An estimated 6,000 will no longer qualify as large.

There are also significant benefits for entities moving into the small companies regime as a result of the changes. As well as being exempt from a statutory audit of their annual financial statements, they will not need to produce a strategic report.

Secondly, they will be able to apply the small companies regime to their financial reporting. This will reduce the level of required disclosures.

Entities moving from the large to the medium-sized category will be able to take advantage of exemptions from certain strategic report requirements.

New rules for the directors' report

The legislation also makes changes to the directors' report that aim to remove many obsolete or overlapping requirements for entities of all sizes.

Small companies will no longer need to provide disclosures that give information relating to the employment of disabled people.

Medium-sized and large companies will no longer have to include disclosures that provide information:

- about financial instruments
- about important events that have occurred since the end of the financial year
- about likely future developments
- about research and development (R&D) on branches
- relating to the employment of disabled people
- about engagement with employees about engagement with customers and suppliers.

What are the options for ineligible groups?

Where a small company is part of an ineligible group and is therefore unable to take advantage of the small companies regime, an audit of that company is usually required. But the subsidiary company may still be able to claim audit exemption via a parental guarantee.

Company law allows a parent entity to give a guarantee to one, some, or all of its subsidiaries, providing this exemption. Brexit led to significant changes in UK company law. For periods that began after the transition stage (ie from 1 January 2021), the parental guarantee is only available from a UK parent. Beforehand, the parental guarantee could have been given by a parent established under the law of an EEA state, with certain conditions.

What are the benefits of a parental guarantee?

Whilst the parental guarantee allows a subsidiary from an ineligible group an audit exemption, it doesn't give them the small and medium companies disclosure advantages. The key benefit of a parental guarantee is a chance to rationalise the whole audit process and costs, by only seeking audits for subsidiaries of their choice, if any.

When deciding whether to opt for a parental guarantee, the size of the subsidiary is a key factor. The increase in audit thresholds will likely lead to more guarantees for those subsidiaries that would be classed as small if they weren't part of an ineligible group. This should preserve investor and stakeholder confidence.

All in all the raising of the audit thresholds will give eligible groups the opportunity to reduce their financial reporting obligations, and therefore time and costs to the company. But this should be weighed up against the benefits of having an audit, such as additional comfort to key stakeholders.

If you would like further support on any of the issues raised in this article, please contact Imogen Massey and Ryan Davies.



Imogen Massey
Partner
+44 (0)20 7516 2363
imassey@pkf-l.com



Ryan Davies
Director
+44 (0)20 7516 2432
rdavies@pkf-l.com

Pillar Two: what should listed groups look out for in 2025?

For many in-scope groups, the first financial year affected by Pillar Two will be audited in 2025. So how should they prepare from a tax compliance and financial reporting perspective?

UK Pillar Two rules came into effect for periods beginning on or after 31 December 2023. Here's a reminder of how they impact companies.

Pillar Two recap

Multinational enterprises (MNEs) within the scope of Pillar Two rules must calculate their effective tax rate (ETR) for each jurisdiction in which they operate. They are liable to pay a top-up tax for the difference between their ETR for each jurisdiction and the 15% minimum rate of tax. If the ETR domestically is 15% or more, no top-up tax is payable.

A qualifying MNE is broadly one with annual revenues above €750m in at least two of the previous four accounting periods, per the consolidated financial statements of the ultimate parent entity.

The UK's implementation of Pillar Two, in line with the OECD model rules, comprises three elements in this order of precedence:

- A qualified domestic minimum top-up tax (**QDMTT**). This imposes a top-up tax domestically on any undertaxed UK activities of in-scope companies or groups (ie where the ETR is less than 15%). Unlike other elements of Pillar Two, the QDMTT can apply to wholly domestic groups (ie UK-only groups) as well as MNEs.

- An income inclusion rule (**IIR**). This charges a top-up tax to the ultimate parent company on the low-taxed income of a constituent entity. Where the ETR for an entity's jurisdiction is below the minimum 15% rate, the ultimate parent is primarily liable for this tax to bring it up to 15%. If the ultimate parent's jurisdiction has not implemented the Pillar Two rules, an intermediate parent entity is liable instead.
- An undertaxed profits rule (**UTPR**). This requires subsidiaries to collect top-up taxes if a parent entity is in a jurisdiction that has not implemented the QDMTT.

The UK introduced the IIR and QDMTT for periods beginning on or after 31 December 2023. The UTPR applies a year later, ie for periods beginning on or after 31 December 2024.

Tax compliance to consider in 2025

Groups in scope of Pillar Two for FY24 will need to register with HMRC for Pillar Two reporting, even if they do not think they'll need to pay any top-up taxes. The deadline for registering is six months following the end of the first in-scope period. For example, a group that is in scope for the year ending 31 December 2024 will need to register by 30 June 2025.

They must also plan ahead for the submission of their first Pillar Two return for the following year. These are due by 30 June 2026, for groups that are first in scope for a period ending on or before 31 December 2024. Future periods' Pillar Two returns will be due earlier (15 months after the end of the period).

Pillar Two has been implemented worldwide to different extents. Some jurisdictions, for example Canada, are in the same position as the UK – they have implemented all three elements of the Pillar Two rules (the UTPR has commonly been brought into effect a year after the other two rules). Others have adopted Pillar Two legislation but are at different stages of implementation. Kenya, for instance, has so far only introduced a QDMTT, with effect from 2025.

In contrast, some jurisdictions (such as China and the US) have remained quiet on Pillar Two implementation or have expressed opposition to the rules.

This inconsistency can make Pillar Two reporting more challenging:

- If the ultimate parent of a group has not implemented Pillar Two, the reporting and payment obligations may fall to intermediate parent entities.
- Subsidiaries may be required to pay top-up taxes for a parent company under the UTPR if the parent company's jurisdiction has not implemented Pillar Two.

The application of top-up taxes may differ year on year, as more jurisdictions start to implement Pillar Two. For example, top-up taxes for a subsidiary might need to be paid by a parent company under its IIR in year one, but for year two they might need to be paid by the subsidiary itself through a local QDMTT.

Worldwide groups should therefore keep a close eye on the Pillar Two implementation status across all the jurisdictions in which they operate. This is to determine the exact reporting and payment requirements on a year-by-year basis.



Illustrative example

UK company with a US parent and Kenyan subsidiary, all entities with a 31 Dec year-end.

2024

US co

UK co

Kenya co

- No Pillar Two rules in force
- QDMTT applies in respect of undertaxed UK profits
IIR applies in respect of undertaxed Kenya profits
- No Pillar Two rules in force

2025

US co

UK co

Kenya co

- No Pillar Two rules in force
- QDMTT applies in respect of undertaxed UK profits
IIR applies in respect of undertaxed Kenya profits only if insufficient taxes collected via Kenya's QDMTT
UTPR applies here in respect of undertaxed US profits (subject to safe harbours)
- QDMTT applies in respect of undertaxed Kenya profits

Financial reporting considerations in 2025

When the UK rules were substantively enacted but not yet in force, groups were required to include narrative disclosures in their financial statements that set out the expected impact of Pillar Two on their group's tax position.

For periods where the rules are in force, groups now need to include an actual tax provision for estimated Pillar Two taxes in their financial statements. But beware: rather than just checking disclosure of the expected amount of tax payable, auditors will be interrogating the amount provided for in more detail.

What kind of support are auditors likely to want to see?

- Supporting workings (with detailed explanations) for any provision recognised in the financial statements (or to evidence that no provision is required)
- Where any transitional safe harbour tests have been applied, an explanation of how the required conditions have been met
- Descriptions of the data sources used to compile the workings.

The requirement to make an actual provision for Pillar Two taxes could, in theory, simplify the requirement for narrative disclosures in the financial statements. But groups in jurisdictions that are at different stages of Pillar Two implementation could have the worst of both worlds when it comes to disclosure requirements:

- Actual tax provisions for jurisdictions where the rules are in force
- Narrative disclosure for jurisdictions where the rules are substantively enacted but not yet in force.

As above, year by year the exact requirements could change depending on how Pillar Two implementation progresses across the world. This would only add further complexity for groups preparing their annual financial statements.

What is our advice?

Pillar Two is an evolving regime. Affected groups should therefore be in contact at regular intervals with their tax advisors to find out what their compliance and disclosure requirements are, and to prepare their related supporting papers. As FY24 is the first year when Pillar Two disclosure becomes relevant, auditors are likely to put this area under the microscope.

If you would like any support on Pillar Two matters, please contact Mimi Chan or Jannat Moyeen.



Mimi Chan
Partner
+44 (0)20 7516 2264
mchan@pkf-l.com



Jannat Moyeen
Senior Manager
+44 20 7516 2475
jmoyeen@pkf-l.com

A focus on dual listing

What are the benefits of dual listing?

Dual listing allows businesses to access new sources of investment on the global market, whilst maintaining their position under the umbrella of the London Stock Exchange.

We have seen the benefits first hand, with a number of PKF Littlejohn’s audit clients successfully listing on overseas stock exchanges, seeing promotion of market cap and gaining access to additional capital.

The combination of different time zones, with their varying trading hours, and geographical reach provides a more diverse investor base. This can help to hedge against local economic fluctuations in the future. It can also increase exposure to a range of investor strategies and preferences when looking for capital.

On top of funding, dual-listed entities benefit from enhanced visibility and a more prominent global profile. This increases their attractiveness to new partners and institutional investors and opens up fresh business opportunities.

Technical and regulatory considerations

Regulatory requirements on overseas markets, such as the PCAOB audit requirements in the US, are a barrier to entry for some and can significantly increase costs. On the plus side, they provide investors with a higher level of confidence and, as with the London Stock Exchanges, can improve a company’s credibility as a result.

Companies must follow local audit standards and ensure all regulatory filings meet the requirements of both exchanges. For example, in the US filings must comply with rules and standards set by the Securities and Exchange Commission (SEC), but in Hong Kong they fall under the Securities and Futures Commission (SFC).

So it’s important to give due thought to each exchange’s specific requirements. Here are some examples.

1. **Corporate governance structure** and requirements can vary from exchange to exchange. Whilst some, such as AIM in the UK, do allow for adoption of other recognised codes, others are less flexible. The Main Market requires adoption of the UK Corporate Governance Code by all commercial companies with equity shares, under the new UK Listing Rules. On the other hand, the US doesn’t have a specific code. Instead, corporate governance is regulated through the SEC and stock exchange rules, as well as other state and federal regulations.
2. **Financial reporting frameworks** can cause added complications when preparing annual and interim financial statements. IFRS are the most widely used standards. But reporting requirements can vary across stock exchanges so should be carefully considered when preparing accounts.
3. **Financial reporting timelines** are generally around three to four months for annual reports. NYSE and Nasdaq have one of the shortest timeframes at 60 days for large accelerated filers. AIM, by contrast, allows six months from the end of the financial year.

4. **Shareholder communications and disclosures** must be made in accordance with each exchange’s rules to ensure transparency and compliance with market abuse regulations.
5. **Tax implications** should also be factored in, both from the listed entity’s perspective and to ensure sufficient communication of requirements for investors’ filings.
6. **Other specific requirements** include minimum market capitalisation or liquidity thresholds.

Other considerations in light of current market conditions

The recent implementation and subsequent temporary suspension of the USA tariffs has sparked significant market volatility in recent weeks. Whilst there has been selective recovery reflected in certain entities’ share prices, others continue to face challenges, particularly those with trade exposure to countries where there is still significant exposure to high tariffs.

Whilst many see this as a barrier to entry, this can also give rise to opportunity in new businesses looking to list. With early strategic shifts, companies which are able to mitigate these associated risks, diversify into new markets and supply chains, could see their value increase whilst there is a perceived gap in the market.

How can we help?

PKF Littlejohn has expertise in working with a variety of global businesses listed on stock exchanges in the UK, the US, Canada, Australia and Singapore, amongst others.

We are a PCAOB-registered audit firm and provide audit services to companies listed on both Nasdaq and NYSE, and on other overseas exchanges including TSX and ASX. Our transaction services team has also worked with clients on a range of overseas listings, including dual listing processes.

Our in-house audit, transaction and tax advisory teams are complemented by the PKF Global network, with over 440 locations and 21,000 partners and staff worldwide. With rapid access to technical guidance and support from PKF offices around the globe, we are perfectly placed to help and advise on dual listings, both in the UK and internationally.

For more information about the regulatory requirements and challenges faced by companies looking to dual list on an overseas exchange, please contact Nicholas Joel or Jamie Legge.



Nicholas Joel
Partner

+44 (0)20 7516 2373
njoel@pkf-l.com



Jamie Legge
Manager

+44 (0)20 7516 2383
jlegge@pkf-l.com



About PKF

Simplifying complexity for our clients

PKF is one of the UK’s largest and most successful accountancy brands.

We have a strong reputation with publicly listed companies, and understanding these highly regulated, technically complex businesses has become a specialism of ours. We focus on delivering consistent quality and making all our clients feel valued.

Our specialist capital markets team has vast experience working with companies listed, or looking to list, on a range of international markets including the London Stock Exchange Main Market, AIM, AQUIS, NASDAQ & OTC, ASX and TSX & TSX-V.

PKF in the UK...



Ranked 12th largest Audit practice in the UK in the latest Accountancy Daily rankings



£202 million annual fee



1,450+ staff



5th ranked auditor of listed companies



Our Capital Markets credentials

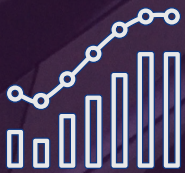
Our auditor rankings from 



How we can help...	
Pre-IPO	→
IPO	→
Specialist transactions	→
Audit & assurance	→
Tax	→
Business advisory	→
Business soultions	→



PKF UK
in numbers



Capital Markets
in numbers



PKF Global
in numbers

12th

Largest audit practice
in the UK

180+

Listed audit
clients

Part of the
14th

Largest global
accounting network

20

Offices across
the UK

£2.7bn

Value of transactions
advised on in last
10 years

480

Offices in
150 countries

1,450+

Employees and
180 partners

100+

Transactions advised on
in last 5 years

\$1.4bn+

In aggregate
fee income

£202m

Fee income
and growing rapidly

26

International
businesses brought
to the UK in last 10
years

21,000

Employees

Get in touch today

To see how we can help...



Joseph Archer
Partner - Capital Markets

+44 (0)20 7516 2495
jarcher@pkf-l.com



Joseph Baulf
Partner - Capital Markets

+44 (0)20 7516 2216
jbaulf@pkf-l.com



Jonathan Bradley-Hoare
Partner - Capital Markets

+44 (0)20 7516 2203
jbradley-hoare@pkf-l.com



Adam Humphreys
Partner - Capital Markets

+44 (0)20 7516 2393
ahumphreys@pkf-l.com



Daniel Hutson
Partner - Capital Markets

+44 (0)20 7516 2290
dhutson@pkf-l.com



Nicholas Joel
Partner - Capital Markets

+44 (0)20 7516 2373
njoel@pkf-l.com



Zahir Khaki
Partner - Capital Markets

+44 (0)20 7516 2394
zkhaki@pkf-l.com



Wendy Liang
Partner - Capital Markets

+44 (0)20 7516 2312
wliang@pkf-l.com



Mark Ling
Partner - Capital Markets

+44 (0)20 7516 2208
mling@pkf-l.com



Imogen Massey
Partner - Capital Markets

+44 (0)20 7516 2363
imassey@pkf-l.com



Dominic Roberts
Partner - Capital Markets

+44 (0)20 7516 2219
dominicroberts@pkf-l.com



Andrew Simpson
Partner - Capital Markets

+44 (0)20 7516 2200
asimpson@pkf-l.com



Dave Thompson
Partner - Capital Markets

+44 (0)20 7516 2293
dthompson@pkf-l.com



Hannes Verwey
Partner - Capital Markets

+44 (0)20 7516 2313
hverwey@pkf-l.com



PKF Littlejohn LLP
www.pkf-l.com

London
15 Westferry Circus
Canary Wharf
London E14 4HD
+44 (0)20 7516 220

Leeds
3rd Floor, One Park Row
Leeds
LS1 5HN
+44 (0)113 244 5141

Manchester
11 York Street
Manchester
M2 2AW
+44 (0)161 552 4220

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