



POLITICAL AND ECONOMIC ASPECTS OF BREXIT IMPACT ON ACCOUNTING LEGISLATION IN THE UK – NEW DIRECTIONS IN STANDARDS (GAAP UK AND IFRS)

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Abstract

Post-Brexit is currently being researched as not only an important geopolitical change but also as an economically conflicted period that constantly generates many issues in finance, accounting, and taxation. This paper aims to consider, identify and forecast – whether and what – the new directions for the development of IFRS and GAAP UK after Brexit. The research methods are based on a deductive research approach with elements of descriptive content analysis. The results of the study helped to determine the development direction of accounting in the UK after Brexit in the short term – the continued application of IFRS, adopted by the EU. However, it is obtained that the task of the British government – to harmonize its sovereignty with IFRS, taking into account the requirements of the EU – is being successfully implemented. So, the direction of the development of British accounting in the future – is the creation of its mechanism for the approval of national standards, controlled by the government. However, the British accounting system and IFRSs have many unresolved issues after Brexit that might be the subject of future studies.

Keywords

Brexit, Accounting Standards, Taxation; Directive, United Kingdom, European Union

I. Introduction

The EU is the largest market for financial services for Britain, which are net exports to the British economy. The UK's withdrawal from the EU will have and already has a dramatic impact on the political, legal, and economic site, both in Britain and on the EU continent². Indeed, after the UK's exit from the EU in January 2020, the economic and political situation at the international level has changed, and therefore global business and the

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² Lehmann and Zetzsche (2016).

mechanism for applying IFRS have been moving. The EU financial services framework, not the first time watches a victory of politics or economics over the law – that is, formal legal structures are brushed aside when political necessities or economic exigencies so require³. It can be seen as one of the economic consequences of the political influence of Brexit on the accounting system, which is related to International Financial Reporting Standards in whole or in part, depending on the status chosen for IFRS in each country. The purpose of this study is to investigate the political and economic effect of Brexit on the development of IFRS and GAAP UK in the post-Brexit. There are, at least, three main reasons to focus on this impact.

The first is that the United Kingdom is the second-largest economy in the EU and is also a member of:

- * the IASB,
- * six professional accounting organizations headquartered in London,
- * the European Economic Space (hereinafter – EES),
- * the G20 group,
- * the European Commission (until May 2019),
- * the European Financial Reporting Advisory Group (EFRAG).

The UK's exit from the EU changes the status of International Standards at both local (the UK) and regional (the EU) levels. What role will be assigned to IASB and the GAAP UK; whether the United Kingdom will remain part of EFRAG or completely reformat its board, FRC, in the post-Brexit period is discussed in this article.

Second, there is growing interest in the Brexit effects on different sides of British politics⁴, and social and economic⁵ phenomena, including rarely accounting⁶ and taxation⁷. The further development of accounting and financial reporting, auditing, and taxation rules in the UK depends on whether the UK will remain in the EU single market. Although even in the case of a “hard” exit, the UK can take benefit from the EU's third-country “equivalence” concepts for financial services⁸. In this case, British firms may be able to compete just as effectively in New York as in London. According to this, this article identifies three possible directions for such a development in the British accounting and audit system in the post-Brexit period.

Third, the prior studies have not investigated Brexit's impact in terms of the accounting system (see Table 1). For example, after the first voting for Brexit, prior studies were starting to research after 2016. Among them, it was the study⁹ where were mentioned about arising issues in the cross-border application of accounting standards and the activity of auditors.

³ Ringe (2018).

⁴ Inglehart and Norris (2016), Trueblood (2020), Meyenburg (2022).

⁵ Arnorsson and Zoega (2016), Ringe (2018), Heald and Wright (2019), Howley and Waqas (2020).

⁶ Böckli et al. (2017), Heald and Wright (2019), Boulhaga et al. (2022).

⁷ Strobel (2017).

⁸ Armour (2017).

⁹ Böckli et al. (2017).

Table 1: Literature overview of the keyword “Brexit” in scientific publications in 2016–2023*

Subjects	2016	2017	2018	2019	2020	2021	2022	2023*	Total
Accounting	5	25	24	22	24	24	24	3	151
Agriculture	3	18	20	21	20	19	20	4	125
Business & Management	29	74	80	85	89	76	85	18	536
Total	37	117	124	128	133	119	129	25	812

Note: * January, February, and March

Source: used Wiley Online Library (n.d.)

Table 1 shows remained an open topic about the current effect of Brexit (after 2020) on the development of IFRS and local accounting standards in the UK. In regards,¹⁰ the effect of Brexit on the development of normative accounting internationally and locally has never been investigated (see Table 2).

Table 2: Literature overview of Brexit in scientific publications on “Accounting subject”

Accounting subtopics	2016	2017	2018	2019	2020	2021	2022	2023*
– accounting for the public sector	x	x	x	1	x	x	x	x
– modes of accounting	x	x	x	1	x	x	x	x
– reporting	x	x	x	x	1	x	x	x
– audit	x	2	1	x	x	1	3	x
– equity	x	x	1	x	x	1	x	x
– assets	x	x	x	1	x	x	x	x
– firm performance	x	x	1	x	1	1	1	x
– accounting conservatism	x	x	x	x	2	x	1	x
– credit risk	x	1	x	x	x	x	x	x
– tax risk	x	1	x	x	1	x	3	x
– disclosure	x	x	x	1	x	x	1	x
– information asymmetry	x	x	x	x	x	x	1	x
– transparency	x	x	x	x	x	x	1	x
– uncertainty	x	1	1	1	x	2	x	x
– climate change exposure	x	x	x	x	x	x	x	1
– foreign exchange	x	1	x	x	1	x	3	x
– normative accounting (standards, directives, etc.)	x	x	x	x	x	x	x	x
Others (economic effects, decision-making, CSR, etc.)	5	19	20	17	18	19	10	2
Total	5	25	24	22	24	24	24	3

Note: * January, February, and March

Source: Wiley Online Library (n.d.).

¹⁰ Heald and Wright (2019).

That is, as Table 2 shows, even among the above-mentioned accounting topics, scientists did not take into account the direct study of standards, their changes after Brexit, and their impact on the accounting, auditing, and reporting system both in the country and in the EU member states. It is in this area, according to our forecasts, that adjustments will be made in the legislation of the UK. And since the country is a participant in the development of IFRS and their application, accordingly, these standards will receive new directions for the British ones or vice versa. The third possible option is a mixed one – harmonization of both accounting systems and standards with the preservation of national sovereignty in accounting and reporting.

This paper aims to consider, identify and predict – are there any and which ones – directions of the development of IFRS and GAAP UK in the post-Brexit period. Therefore, in the article three possible directions for normative accounting development in the UK have been considered:

- i) creation of a national mechanism for approval of IFRS, similar to the EU;
- ii) continued application of IFRS (EU) by the UK-listed companies;
- iii) adoption of IFRS without any intervention by the British authorities.

To achieve the goal, the study has been based on the quantitative collection of primary data, positivist research philosophy, and deductive research approach with elements of descriptive content analysis.

The results of this paper indicate that the new British Accounting and Financial Reporting Standards Board (ARGA), under the control of the British government, will strictly control the current and future development of the IASB standards. The findings show the British government has chosen the path of approval of IFRS in the UK after the post-Brexit period similar to the Australian scenario. Overall, the results of the research suggest that in the transition period, British and other listed companies in the UK will not experience significant differences with EU regulations. The reason is quite clear, as the United Kingdom, although not a member of the EU, remains subject to its legislation during this period. Moreover, the research results make several contributions to the scientific literature.

First, while a considerable number of studies in macroeconomics, politics, international relations, government law, and jurisprudence documented the impact of Brexit on the EU and the UK from different perspectives (effective, negative, and neutral), the further development of accounting went unnoticed in the context of the UK that used IFRS (EU) and the world where the UK has held and continues to lead in the global market and the adoption of IFRS (IASB). This study is very necessary from the point of view of accounting perspectives for IFRS and the inclusion of its development and GAAP in the UK in subsequent studies.

Brexit was studied for all stages of its implementation, however, its transition period for the UK in 2020 did not receive sufficient coverage in various areas of state formation, and national economic development, including accounting. Therefore, this study is a novelty that covers not only the state of development of accounting, auditing, and financial reporting in the transition period of Brexit, but also reveals the forecasts and expectations for further changes after Brexit.

Third, the used in this study methods are considered also important contributions to the research methodology of the study that might be related to the Brexit impact on the accounting field or any other industries in a country. It would be useful for further consideration and investigation of the post-Brexit issues.

This paper is organized as follows. The related literature and development of hypotheses are presented in Section II. Section III describes the research methodology and methods. Section IV consists of the main result of the analysis of the post-Brexit effect on normative accounting in the UK and IFRS-preparers. A concluding discussion is presented in Section V.

II. Literature Review and Hypotheses Development

In previous studies, Brexit and post-Brexit issues have not been frequently published, especially in the terms of accounting and financial reporting under IFRS or GAAP in the UK. As shown in Table 1 above, all topics related to Brexit did not reveal topics close enough to accounting. In particular, British publications had the opinion¹¹ on the impossible implementation of Brexit, like the fair election of the Prime Minister of the United Kingdom. That is, the British did not believe in Brexit, and the Brexit process itself was seen by the British as a way to prolong the political battle, as Craig explains it, breaking the entire period before Britain's exit from the EU into six acts of Shakespeare's play. However, after the 23 June 2016 Referendum, where the British people decided to leave the EU, and the 29 March 2017 notification to the European Council of the UK's intention to withdraw from the Union, these consequences were very quickly felt in all legal systems as in the UK and the EU¹², as well as in trade relations with Asia¹³. As a result, this has led to tensions between the two recognition systems of foreign companies, most of which with UK headquarters expected to be disqualified, including most of the alternative investment funds mainly based also in London¹⁴.

Some scholars saw the reason for the complication of this situation in industry regulations, rather than the Companies Act which regulates the accounting system¹⁵; others explained this as a structural weakness in the use of referendums in the UK¹⁶. For example, in the UK before Brexit, referendums were used "unplanned" and specifically when it was politically convenient. The expression *"the most widely-held view of mass support for populism – the economic insecurity perspective – emphasizes the consequences of profound changes transforming the workforce and society in post-industrial economies"*¹⁷ is apt here. But to understand the reasons, in the social domain, indeed, a longer period is necessary to uncover the origins of the many factors explaining the Brexit vote.

¹¹ Craig (2016).

¹² Böckli et al. (2017).

¹³ Wu (2020).

¹⁴ Bodellini (2017).

¹⁵ Böckli et al. (2017).

¹⁶ Trueblood (2020).

¹⁷ Inglehart and Norris (2016).

The publication¹⁸ summarizes that Brexit was advocated in most parts of the UK, where GDP is low and most people have a low level of education, with an age over 65, and where is a strong level of immigration. That is, most Britons believe that approaching immigrants in the UK after joining the EU has had a negative impact on the British labor market¹⁹. Although this is not entirely justified in terms of the analyzed literature. For example, some authors²⁰ repositioned the link between attitudes toward immigrants and voting for Brexit, however, their analysis of selected data from a British election survey showed a strong causal correlation between them. The researchers had been more convinced of the negative effects on the British economy of imports from China over the past three decades. They described the negative effects of Brexit on international business and entrepreneurship in terms of barriers to trade and immigration associated with the uncertainty created by Brexit.

In addition, investors saw Brexit as a negative event for the country's economy and its own business in the future²¹. The negative effect of Brexit on the UK economy was predicted in the context of the impact of global currency adjustments on domestic investment flows to the UK²². Despite zero inflation in the pre-Brexit period, the amount owed for Britain's exit from the EU was expected to hold back the flow of sterling to the UK for a long period. However, it was noted that the sense of competitive liberalization motivates the UK's pursuit of trade opportunities with East Asia²³.

Also, previous studies have noted that the EU will also have significant negative effects in the post-Brexit. For example,

- i) the EU has to prove its continuous relevance in international economic relations that the UK couldn't call as active and flexible trade relations²⁴;
- ii) the EU will receive a budget cut as the UK, one of the EU's largest economies stops funding it. However, another study noted that the potential contribution that the UK will be required to make as a condition for gaining access to the internal market will smooth out Brexit's significant impact on the EU budget²⁵. Even if the UK stays out of the domestic market, tariff revenues will account for a significant share of the "net loss". That is, for the EU on both sides, Brexit is not expected to be a loser, but the UK will receive small financial savings from it²⁶. Scientist Schaefer also reaffirmed this view, adding that the EU's internal market is growing no less than the markets of other high-income economies, which for the UK as an EU member would have better prospects to expand trade with China and India without Brexit²⁷.

¹⁸ Arnorsson and Zoega (2016).

¹⁹ Alfano et al. (2016), Cumming and Zahra (2016), Howley and Waqas (2020).

²⁰ Colantone and Stanig (2016).

²¹ Arnorsson and Zoega (2016).

²² Driffield and Karoglou (2016).

²³ Wu (2020).

²⁴ Wu (2020).

²⁵ Nunez-Ferrer and Rinaldi (2016).

²⁶ Nunez-Ferrer and Rinaldi (2016).

²⁷ Schaefer and Kämmerer (2020).

As presented in the AICPA's survey, the consequences of Brexit analysts predict a loss for both parties:

- * for the EU – the loss of a large regulator of the common market, the risk of a “domino” effect, which could cause the exit from the Union of other countries; and
- * for the United Kingdom – a 1.5% reduction in GDP, a 10% depreciation against the euro, a reduction in trade, a slowdown in the economic growth of at least 0.5% per year for 15 years, a domestic split in the UK, Wales, Scotland, Northern Ireland²⁸. Although the British themselves believe that EU membership has hindered the development of the country, giving billions of pounds to the European budget, “limiting” business and giving freedom to labor immigrants²⁹.

Scientist Ringe painted in his study Brexit as an almost Apocalypse-like scenario. In particular, the author predicted after Brexit a significant delay in financial integration in Europe and the threat of London's authority as a global financial center, which will impose significant costs on all market participants. However, the author's opinion was ambiguous in comparison with other researchers – he predicted that Brexit's influence on financial services would be insignificant. He based this optimism on the strong position of both parties (the UK and the EU), which are likely to agree based on regulatory equivalence. *“If an agreement is not achieved, private solutions by market actors are likely”*³⁰.

However, Bartels noticed that Britain's position after leaving the EU would not change at all within the WTO³¹. The scientist admits that such an advantage will be gained by the UK not due to EU membership because after Brexit, WTO rights and responsibilities will remain in the UK like before Brexit. The author singled out a more complicated situation for tariff quotas and agricultural subsidies, for which the United Kingdom will have to develop a new schedule for changing or modifying certification. As the author concluded, the future situation will depend on the proper settlement of disputes after Brexit, and the author assured of its successful outcome due to the strong position of Great Britain in public procurement by EU member countries.

Lehmann and Zetzsche (2016) argued for the neutral position of Brexit's influence on certain relations and businesses, and carefully studied the consequences of Brexit in five areas: contract law, the law of non-contractual obligations, corporate law, financial law, and international litigation³². Despite the lack of accounting in this list, still examined issues of English law, the status of companies in the EU membership, the fate of European public companies headquartered in the UK, access of British banks to the EU market, the conditions of insurance companies after Brexit may be useful when studying the impact of Brexit on the country's accounting system, national tax system and conditions of application of IFRS or UK GAAP by European and British companies after Brexit.

²⁸ which is essentially already implemented as of March 2023 – some EU laws continue to apply to Northern Ireland.

²⁹ AICPA (2019).

³⁰ Ringe (2018).

³¹ Bartels (2016).

³² Lehmann and Zetzsche (2016).

In addition, the literature review of previous publications allowed to reveal a link between Brexit and accounting regulations only in small numbers. For example, before Brexit, some authors noted that additional issues will arise for cross-border recognition of accounting standards and the activity of auditors³³. Another considered environment and implications for audit planning³⁴, and some changes in international tax³⁵.

In the post-Brexit period, Heald and Wright September 2019 presented their opinion that the existing amount of Brexit debt owed to the EU will affect not only the British financial reporting, statistics, and budgeting, but also forecasting the country's fiscal stability. In general, the researchers noted that Brexit is a unique act, unlike other withdrawals from states or the termination of commercial contracts that have taken place before³⁶. However, they found the weakness and inconsistency of Britain's negotiating position with the EU after Brexit and the dominance of EU opinion in the budget calculations of the Multiannual Financial Base for 2014–2020, due to which the EU exists. Thus, scholars argue that this amount, which the UK will have to pay after leaving the EU, depends largely on the country's competitive prospects and contingent liabilities associated with the increasingly difficult financial situation of the EU.

So, the literature review of the prior studies allows us to state our research hypotheses. So, if the UK remains in the EU single market, which will give less risk to the British economy, then this argument led to the following:

HP1: The UK government will continue to apply IFRS (EU) for listed companies, and will continue to participate in EFRAG discussions and the existing mechanism for approving EU directives.

In the case of the “hard” Brexit scenario, the UK can take benefit from the EU's third-country “equivalence” frameworks for financial services³⁷. The survey of 844 US CFOs and CEOs on the impact of Brexit on US business, conducted in March 2019 by AICPA, showed a neutral opinion of 71% of company executives, while the opinion on the negative impact increased from 4% to 16% during the year³⁸. Only 34% of respondents were optimistic about the future of global economic conditions, which was twice less than last year's survey (71%). Besides, the survey showed that the level of faith in the improvement of the US economy also fell from 79% to 57%. At the same time, one of the main reasons for the decline of 43% was called global trade tensions (compared to 36% last year). Perhaps that is why the United States proposed to the United Kingdom in July 2020 to conclude a Free Trade Agreement without the participation of the EU. However, AICPA notes that “*business leaders often overshadow the US economy*”³⁹. Thus, it could create a second direction to develop a national accounting system in the UK after Brexit

³³ Böckli et al. (2017).

³⁴ Oestricher, K. and Beasley (2018).

³⁵ Strobel (2017).

³⁶ Heald and Wright (2019).

³⁷ Armour (2017).

³⁸ AICPA (2019).

³⁹ AICPA (2019).

– the convergence of its own GAAP with US GAAP or the departure from IFRS (IASB) towards the development of its accounting system. These arguments lead to the following hypothesis, stated in the alternative form:

HP2: The UK government will set up a national IFRS approval mechanism after the end of the transition period.

The continued support of IFRS (IASB) by the UK, as a key EU member, has significantly increased the international importance of the IASB. Therefore, after Brexit, the question arises as to how Britain's strong voice in the international debate on financial reporting will be maintained. So, if the UK leaves the EU single market, the further development of accounting and financial reporting, auditing, and taxation will depend on the government's focus on the development of IFRS (IASB). Hence, it forms:

HP3: The UK government will approve the application of current and future IFRS (IASB) without any interference from the domestic system of government.

III. Research Methods and Methodology

Research Methods and Methodology

According to the prior studies, it was not found the appropriate research methodology that is similar to the aim of the paper. Thus, in this article, it was chosen *the Research Onion model*⁴⁰, which is one of the most popular models used in academic research. Regarding this, the research methodology was used by following a particular structure to make the research process more comprehensible for the readers. The research philosophy was based on *positivism* because in positivist studies the role of the researcher is limited to data collection and interpretation objectively.

As the research area does not include any immediate practical implications and its findings cannot be used to solve specific business problems, the type of research according to the purpose and nature of the study was *fundamental* involving the *quantitative* and *descriptive* characteristics. The used fundamental type of research aimed to contribute to the literature the objective view of the Brexit impact on the further development of IFRS and GAAP UK after Brexit. As a result, it helped to expand the scientific understanding of the reasons for Brexit, the aim of the British government, and its consequences for the accounting system locally (in the UK), regionally (in the EU), and internationally (IFRS adopted by IASB). To test the relevance of the three formed research hypotheses, the *deductive approach* was used in this study. As deductive reasoning should be based on existing theory, British law documents, prior studies, and surveys were included in achieving the research goal⁴¹. The highlighted research hypotheses (HP1, HP2, HP3) have not been investigated so comprehensively. As a result, the generalizing from the general economic rules to the specific accounting and financial reporting rules, within the UK legislation, was made by the deduction.

⁴⁰ Saunders et al. (2012).

⁴¹ Letter DBEIS of UK (2020).

The chosen *descriptive research strategy* matched with the study target to describe the political and economic situation in the UK after Brexit, in particular, focused on the changes in accounting, auditing, and financial reporting regulations after Brexit, presented in the descriptive table.

Gathered data about the accounting, auditing, and financial reporting regulations – within 2020. It means it used the *cross-sectional time horizon*. To collect data for this table was used *primary data* because the Brexit consequences for the UK accounting standards had not been previously published in journals (see Section II), the IASB website, and other normative sources. Thus, to collect primary data, it was used the *cross-sectional survey* between the previous scientist's studies⁴² and normative documents associated with accounting, audit, and financial reporting (the Letters of FRC⁴³, valid after 31 December 2020, EU Regulation no. 2019/685⁴⁴, etc.). As a result, it was analyzed normative regulations issued within 2020 (after Brexit). It made this research more original but required more time and effort to present it schematically. The results were performed in the descriptive table (see Table 3 below).

This study it was involved descriptions of objective evidence, focusing on words and meanings, rather than numbers and statistics, and interpreting the rules of financial reporting, accounting, and audit in the post-Brexit UK, – *qualitative data*. The used qualitative research designs tend to be more flexible, allowing the readers to adjust this approach based on new findings of future research. According to the primary qualitative data for conducting the research process, the *qualitative method for analyzing data* was chosen. Qualitative research is especially effective for obtaining specific information about the opinions of specific groups of scientists. For this, it was used as a *bibliometric analysis* and analysis of the normative letters of FRC⁴⁵. Bibliometrics is very useful for the organization of existing knowledge within the scientific discipline⁴⁶. The provided bibliometric analysis in this paper aims to do an objective review of the scientific literature found by the “Brexit” keyword. It helped to review several articles that studied the Brexit impact before and after 2020 linking the deductive research approaches with classification elements.

The *normative analysis* of Letters DBEIS of the UK, which related to the regulation of new accounting, auditing, and financial reporting rules⁴⁷, was also conducted to achieve the research goal. That is why it was used to understand the Brexit situation in the UK based on law rules. A *comparative analysis* of the advantages and disadvantages of possible directions for the development of the future accounting system and standards in the UK was performed. It helped to group pluses and minuses for each possible direction and presented them in the author-developed comparative table.

⁴² Seidler (1967), Kuznechikova (2018), Kean (2019), Bouvier (2020).

⁴³ Letter DBEIS of UK (2020).

⁴⁴ FRC.ORG.UK. Endorsement of IAS (2020).

⁴⁵ Letter DBEIS of UK (2020).

⁴⁶ Merigó and Yang (2017).

⁴⁷ Letter DBEIS of UK (2020).

Research Strategy

The strategy to reach the main goal of this paper could be described as follows. In the first stage, previous studies that include the keyword “Brexit” were studied in the Wiley Online Library database for 2016–2023. To present them, using the bibliometric analysis, the literature was divided into two categories:

- i) the studies related to accounting development; and
- ii) the studies related only to Brexit and other fields.

The classification of articles in the “Accounting” category into accounting subtopics, which were studied by scientists for 2016–2023, helped to identify gaps in the previous literature related to the impact of Brexit on the development of the accounting system in the context of standards – IFRS, UK GAAP – after Brexit; highlight the relevance of this research topic for today and formulate research hypotheses (HP1, HP2, HP3).

In the second step, according to the constructed research hypotheses (HP), the comparative table to investigate possible new directions for the development of IFRS and GAAP UK after Brexit has been presented in Figure 1. In the developed comparative table, the advantages and disadvantages of possible directions were performed and argued each step-by-step. It helped to understand all pluses and minuses of each direction of the UK, on which she will aim herself. Moreover, the given explanations were associated with each research hypothesis that allowed to predict of the implementation of only one.

In the third step, considering the different opinions of the British government about the further development of IFRS in the UK and national GAAP UK, and also the Letters of FRC issued in February 2020 that consist of information on the transition period for auditors and firms⁴⁸ regulation norms of accounting were classified in the tabular form on two periods: transition and end of the transition. E.g., the transition period (31.01.2020 to 31.12.2020) included financial years beginning before but ending before or after the transition period; the end of the transition (since 01.01.2021) the GAAP UK refers to new standards adopted after the transition period and approved by the Secretary of the Department for Business, Energy and Industry Strategy of the UK and the new Board (AFRAG) in the UK for approval IFRS. It helped to identify the direction for accounting development after Brexit and what will be realized in the UK and to find one of the hypotheses that will realize at the beginning of the transition period, or in the future and or will not be confirmed at all.

IV. Results

“The agreement on the UK’s exit from the EU honors the democratic mandate of the British people. This signature has put an end to long-standing disputes and disagreements and portends a new chapter in the history of our country,” said the British Prime Minister, B. Johnson⁴⁹. That is, Brexit can be seen as a democratic instrument that harmonizes political decisions with the “will of the people,” but in this form of “direct democracy” there is doubt, especially in an environment where the free press has long represented

⁴⁸ Letter DBEIS of UK (2020).

⁴⁹ RBC.UA (2020).

a highly distorted picture of the consequences of the UK's accession to the EU⁵⁰. As the aim of the study is not to determine where the threats to modern democratic development come from, we will focus on how these changes will affect the UK accounting system and the subsequent development of IFRS after Brexit.

It is known historically that there are three geographical areas of influence on accounting: British, American, and continental European⁵¹. Accordingly, the three most influential organizations in the world that are responsible for the formation of IFRS are the IASB (104 countries), FASB (USA), and EFRAG (EU countries). Before leaving the EU, the United Kingdom was part of the IASB and EFRAG. It is clear that after Brexit the country will remain part of only one international organization – the IASB. However, given the IASB's three-tier governance structure, the UK will also exit from the IFRS Foundation Monitoring Board, established in 2009 from the largest capital markets responsible for establishing the form and content of financial statements⁵².

Therefore, given the UK's status as the main jurisdiction of IFRS and the global capital market, to consolidate its right to vote in the formation of IFRS at the level of the IASB after Brexit, it will have to:

- * apply to participate in the monitoring council no longer as a member of the European Commission;
- * to reformat the work of the UK Financial Reporting Council (FRC), which is responsible for setting accounting standards in the UK at the time of its exit from the EU. As the FRC is part of the Accounting Standards Forum (ASAF), which aims to streamline relations between the IASB and the global community in Europe and the rest of the world, this simplifies the process of separating the country and establishing FRC cooperation with other key national setters of world standards.

Besides, the Institute of Certified Accountants of England and Wales (hereinafter – ICAEW), which was at the origin of the IASB, may also be involved in enhancing the macro-economic role of the UK in the formation of IFRS after Brexit. ICAEW, as one of the persistent leaders in creating a single set of high-quality global accounting standards and their application around the world, regularly meets with representatives of the US SEC, EFRAG, IASB, and other international bodies interested in IFRS reporting. It also has offices in Belgium (Europe), China, Hong Kong, Indonesia, Vietnam, Malaysia, Singapore, and the United Arab Emirates (Middle East, Africa, and South-East Asia)⁵³ and has about 147,000 certified public accountants from around the world. *"The need for strong national standards setters is greater than ever. The British financial reporting community must strive for sustainable global influence"*⁵⁴.

⁵⁰ Day.Kyiv.UA (2020).

⁵¹ Seidler (1967).

⁵² IFRS.org. IFRS Foundation Monitoring Board (2020).

⁵³ ICAEW (2020).

⁵⁴ ICAEW.COM. The impact of Brexit (2020).

The next question is whether the UK needs to continue to participate in EFRAG and maintain its influence on the development of IFRS in the EU. After all, to maintain its importance in the formation of IFRS at the international level, it will have to adopt several internal changes in accounting and financial reporting legislation (including the Companies Act 2006), which before Brexit was governed by Regulation (EU) № 1606/2002⁵⁵ and the Seventh Directive. Therefore, the future status of IFRS in the UK after leaving the EU depends on the options chosen by the UK Government and the Financial Reporting Council (hereinafter – FRC) for cooperation with the IASB, EFRAG, or the creation of its mechanism for approving IFRS (see Figure 1).

The first direction. The EU's decisions at the beginning of the changes will continue to affect directly or indirectly the UK's economic interests. After all, in 2007 the United Kingdom allowed the right to choose IFRS regulated by the EU or regulated under the Companies Act 2006 all companies (except charitable). Besides, in 2013 the new UK standards made significant changes to:

- (i) the European Accounting Directives, and
- (ii) the Companies Act 2006 – FRS 102 “Financial Reporting Standard” (300 pages instead of 3000), according to which reporting requirements have become dependent on the size of the entity, as well as changes to disclosure, measurement, and recognition. Thus, the European financial reporting system in 2015 became closer to the British. Therefore, it is likely that after Brexit, the UK's generally accepted accounting practice (or UK GAAP) and EU legislation will remain consistent for the first time. It showed that the first hypothesis is realized at the first step of the post-Brexit.

However, if the UK has its own IFRS approval mechanism (first direction), it is likely that over time, reports from UK companies that try to be listed in the EU will not be considered equivalent to the objectives of EU directives. Therefore, the UK must stay as close as possible with other European stakeholders, as well as with EFRAG – in the first years after Brexit, possibly as an observer in the Technical Expert Group and/or in the Advisory Group. The past practice of the EU and other jurisdictions of IFRS, which it can use as a member of the IASB and a former member of the EU, can play an important role in this. In addition, if the UK plans not to cease active participation in EU capital markets after Brexit, the current criteria of the EU Directives must remain a priority at the legislative level of the country in the future. For example, future British standards will have to:

- * comply with the principle of “true and fair” reflection;
- * promote the public good in Europe and not jeopardize its financial stability;
- * meet the basic criteria of quality information (clarity, relevance, reliability, comparability), necessary for the submission of financial statements to users;
- * provide the necessary information for economic decisions and evaluation of management⁵⁶.

⁵⁵ Regulation EU No 1606/2002 (n.d.).

⁵⁶ ASSETS.EY.COM (2020).

Figure 1: Possible directions of the British accounting standards development after Brexit in terms of advantages and disadvantages

I IFRS EUR	II GAAP UK	III IFRS IASB
Continue to apply IFRS by UK listed companies, Participate in EFRAG discussions, and the existing EU mechanism.	Establishment of a national standards approval mechanism.	Adoption of the current and future IASB standards without any intervention by the British authorities.
+ Easy in legislative terms; + Avoids the costs associated with the operation of a separate national standard approval	+ Appropriateness of national standards in case of regression of IFRS or IASB errors; + Fast and gradual process; + A critical way to establish the legitimacy of IFRS; + Freedom in determining the types of organizations and forms of reporting; + Most private companies already use GAAP in the UK; + Ability to change “harmful” requirements for financial statements; + Simplification of the taxation system	+ Easy in legislative terms; + Avoids the costs associated with maintaining some existing standards approval mechanisms; + Improving the UK’s role as a key global partner in the mission of promoting comparative and high-quality international reporting
– Sensitivity to loss of power in the EU; – Slows down the decision-making process in the UK; – Forced to make decisions with which the UK does not agree; – Reducing the impact on the IASB; – The long-term mechanism for EU approval of a new standard and then it will be testing	– Significant time and resources associated with the establishment and operation of a separate national standards approval mechanism; – Duplication of costs and efforts similar to EU processes; – Critical discrepancies with standards adopted by the EU (for British companies) and IASB standards (for British listed companies in the US)	– The lack of a mechanism for rejecting the new standard reduces the impact on IASB decision-making

Source: author’s development

Also, if this direction of change is chosen (see Figure 1), a slight discrepancy in the terminology of FRS 102 with the Companies Act 2006 should be eliminated after Brexit. To this end, in particular, the British government should involve ICAEW consultations to minimize the risks of unforeseen consequences when balancing relevant regulations and laws with standards (FRS). This will help avoid duplication and provide significant simplification of regulations. As a result, close harmonization between UK and EU law will reduce the likely differences resulting from IFRS approval, make the financial statements of European and British companies equally transparent and comparable, and allow EU and UK capital markets to function effectively in the post-Brexit period.

The second direction. An important point in choosing this option is that some provisions of the latest EU directives, reflected in the UK Company Act 2006, were not supported by the public. Many small and micro businesses have assessed the new requirements in practice as “harmful” to UK financial reporting, in particular the restrictions on disclosure of small companies introduced by the EU Directive in 2013⁵⁷. Before Brexit, their removal was impossible, which added to the costs for British businesses. Therefore, reproducing UK national standards will provide a greater variety of financial disclosures (information on directors’ remuneration, corporate governance, environmental costs, salary, tax strategy, and payments to governments), providing better transparency and comparability, especially with the parallel development of electronic (XBRL-format) and integrated reporting, as required by users of public company reports.

Of course, business continuity and stability should take precedence over changes in UK law in the first years after leaving the EU, but the short-term prospect of correcting these European standards would still bring British companies the first advantage over Brexit. The second advantage of Brexit is the tax relief for British companies – Directive 2011/96 / EU, and Directive 2003/49 / EU will lose their direct effect. As a result, the need to withhold tax from related companies from different EU countries will disappear. The provisions of these directives will no longer be applied by British companies until the issue is resolved between the EU and the UK, which may either reduce tax rates on transactions between European and British companies or be excluded from the source altogether, such as the national legislation of Cyprus and Hungary (on dividends), the Netherlands, Luxembourg, Sweden (on interest and royalties)⁵⁸.

However, given that British law does not require withholding tax to pay dividends (except in the case of mortgage investment trusts), British companies can only be guided by existing UK double taxation agreements on interest and royalties. Also, in tax issues, the introduction of a parallel system of VAT taxation, and new methods of obtaining VAT refunds from European tax authorities need special attention. It is obvious that having lost access to the European mechanisms of the “single window”⁵⁹, the UK will be forced to introduce import VAT in case of import of goods from the EU, and for distance trade, electronic, telecommunications, and radio services – to register VAT payers in each country, where there will be a wide consumer base.

⁵⁷ Directive 2006/43/EU (n.d.).

⁵⁸ Kuznechikova (2018).

⁵⁹ Kuznechikova (2018).

Therefore, after Brexit, in the case of choosing the first direction (see Figure 1), the UK government should publish its position on (non)interference in the new mechanism for approving IFRS. As a rule, despite the need for resources and oversight bodies, experience shows that government intervention does not contribute to high-quality financial reporting standards, and investor confidence in government-dependent decisions (with lobbying of certain groups) can decline significantly. However, there are exceptions: in Australia, for example, the responsibility for approving IFRS rests with the Australian Accounting Standards Board, a government agency that first issues a draft standard for comment and then approves a standard that is considered legal. The Australian Parliament has the right to veto this law. However, in practice, there were no amendments to such standards, which indicates a balanced consideration. In Canada, on the other hand, IFRS approvals are delegated by the Canadian Accounting Standards Board, which is completely independent of the government. As in Australia, it issues a draft standard to discuss possible inconsistencies with Canadian organizations and notes that this standard was developed by the IASB⁶⁰. As a result, all international IASB standards are now fully approved as Canadian GAAP.

As noted in the SEC working paper on the inclusion of IFRS for US issuers, virtually all developed economies that have adopted IFRS have introduced their form of national standard-setting mechanism⁶¹. However, despite differing views on the forms of the new IFRS approval mechanism, it is clear that such a change will have significant implications for future reporting in the UK and even the development of IFRS internationally. Therefore, the choice specified in Figure 1 directions should be acute.

The third direction. Given that the United Kingdom has had a long historical process of influencing the development of IFRS, its approaches to accounting have often made a significant contribution to both Europe and internationally: accounting for small businesses and strengthening non-financial reporting to the importance of innovation and corporate reporting. The continued support of IFRS by the UK, as a key EU member, has significantly increased the international importance of the IASB. Therefore, after Brexit, the question arises as to how Britain's strong voice in the international debate on financial reporting will be maintained. It is clear that the UK, given the opportunity to expand its influence, will try to become one of the world's largest capital markets, apart from the EU. Therefore, IASB standards, which are now increasingly seen as a global reporting direction for listed companies, could be a good opportunity to make such an attempt and make the UK a more attractive market for investors from around the world.

Indeed, investors, most of whom do not have the time and resources to study the intricacies of local rules of international standards, seek to be sure that the application of IFRS is accepted by the jurisdiction in full. Besides, it is known that investor confidence in the market supports the economic growth and financial stability of any country. Experience has shown that those countries that first amend the IASB's standards generally move to their full application, recognizing all the benefits of the transition, subject to full compliance

⁶⁰ ICAEW.COM. The impact of Brexit on the application (2018).

⁶¹ ICAEW.COM. The impact of Brexit (2020).

with IFRS. Therefore, the UK, as a powerful financial center in the world, should not deviate from IASB standards⁶².

ICAEW representatives also believe that the possibility to apply IFRS approved by the IASB should remain available in UK law for all companies, including subsidiaries. And the British Council (FRC) called for a full transition to IFRS: *“We believe there is good reason to require all companies that raise money from the public to remain subject to strict IFRS reporting”*⁶³. This may be a propensity for the Canadian version of IFRS approval, but to properly analyze the path chosen by the UK for changes in the accounting and financial reporting system, it is necessary to examine the steps already taken during the transition period. After all, it is during this period that the UK government is launching the necessary statutory documents for the accounting and auditing sector, together with explanatory letters from the FRC⁶⁴, which will enter into force after 31 December 2020. As a result, the study of these documents helped to group the main provisions of the new British system of accounting, financial reporting, and auditing in the post-Brexit period and after its completion in the following table (see Table 3).

In particular, the government plans to make international standards known as “adopted by the UK” (similar to EU IFRS), and the country will effectively become a “third country” for the EU. Besides, EU Regulation № 2019/685⁶⁵ delegated the powers of the European Commission to approve and adopt IFRS to the Secretary of State of the United Kingdom with the subsequent delegation of these functions to a new independent standard-setting body – the UK Approval Council (UKEB)⁶⁶. Under the planned regulations, the new UKEB will be a subsidiary of FRC, including a full-time chairman, part-time board members, and 12–15 employees. And the FRC will be replaced by a new Body (ARGA), accountable to Parliament, with new leadership and stronger statutory powers. ARGA is expected to provide more effective oversight of the Big Four audit firms and be relevant to the IASB’s development of global accounting standards. *“We are going to create a new alliance around the world,”* said J. Thompson, former chief executive of the UK’s revenue and customs administration (HMRC) and chairman of ARGA⁶⁷.

One of the most important differences between FRC and ARGA will be that the new regulator will have the right to investigate company executives, CFOs, and all audit committee chairpersons, regardless of their qualifications. Before that, the FRC regulated only the activities of those with accounting qualifications. *“It is right that ARGA will gain a competency that improves management,”* said J. Bulton, ICAEW’s Technical Strategy Manager. *“Under the Companies Act, directors have some responsibilities, and they must be effective”*⁶⁸. The example of the history of the United States and Australia shows that the more aggressive the regulatory regime is, the greater the likelihood of civil lawsuits against

⁶² ICAEW.COM. The impact of Brexit (2020).

⁶³ FRC (n.d.).

⁶⁴ Letter DBEIS of UK (2020).

⁶⁵ FRC.ORG.UK. Financial Reporting Council (2020).

⁶⁶ IASPLUS.COM. UK endorsement of IFRSs post-EU-exit (2019).

⁶⁷ ICAEW.COM. Will ARGA restore trust in audit (2019).

⁶⁸ ICAEW.COM. Will ARGA restore trust in audit (2019).

directors⁶⁹, and therefore the higher their responsibility in making management decisions. Therefore, each director, reviewing the financial statements, will need to examine in more detail the accounting issues disclosed in them.

Table 3: Regulation of accounting, financial reporting, and auditing by the UK government in the post-Brexit period

<i>Types of companies</i>	<i>Adjustable period:</i>	
	<i>Transition (31.01.2020 to 31.12.2020)*</i>	<i>End of the transition period (After 01.01.2021)**</i>
– accounting and financial reporting rules		
British companies (Companies Act 2006)	international standards adopted by the EU	international standards adopted by the United Kingdom (UK GAAP) even for financial periods*
	international standards adopted by the United Kingdom (UK GAAP)	
Public listed companies in the UK	international standards adopted by the EU (including the Transparency Directive 2004/109/EU and the Outlook Directive 2013/50/EU ⁷⁰), even new and amended EU standards	international standards adopted by the EU
		international standards adopted by the United Kingdom (UK GAAP) with a requirement to declare the use of this option in the preparation of financial statements for the reporting period*
Public EES companies listed in the UK	international standards adopted by the EU (including the Transparency Directive 2004/109/EU and the Outlook Directive 2013/50/EU)	international standards adopted by the EU (including the Transparency Directive and the Prospects Directive) = UK GAAP
Listing companies in the EU (Regulation 1606/2002)	international standards adopted by the EU	international standards adopted by the EU or IFRS IASB + Additional requirements for internal purposes of a “third country” or EES country (to be specified by the government)
British (parent) companies with a presence in the EES (subsidiaries)	international standards adopted by the EU = UK GAAP	international standards adopted by the EU ≠ UK GAAP
EES (parent) companies present in the United Kingdom (subsidiaries)	Exemption from preparation and submission of invoices + Preparation of a report on non-financial information and changes in accounting dates	Maintaining annual accounts and submitting to the UK Registration Chamber, for the financial period beginning after 31 December 2020

⁶⁹ Kean (2019).

⁷⁰ Directive of the European Parliament (2020).

<i>Types of companies</i>	<i>Adjustable period:</i>	
	<i>Transition (31.01.2020 to 31.12.2020)*</i>	<i>End of the transition period (After 01.01.2021)**</i>
– audit rules		
Banks, building societies, insurers, or issuers of shares or debt securities admitted to the UK market	Disclosure and transparency rules approved by the British Financial Regulatory Authority (FCA) and other rules issued by the British PRA for the Audit Committee and the Audit Directive 2006/43 / EU ⁷¹	1. British companies are required to require the appointment of an audit firm registered in the UK. 2. Professional auditors with qualifications in the SES must be registered in the United Kingdom. 3. Most EES auditors qualified in Ireland do not have to be registered in the UK
Companies that are not members of the EES (including the United Kingdom), but are part of the EES market	Registration as a third-country auditor is not required	1. Registration as a third-country auditor with the EES competent authority is rather necessary (negotiations are underway) 2. Audit reports on EES companies must be signed by EES auditors.
Enterprises throughout the EES (including subsidiaries) and Great Britain (including maternal)	Unchanged for EES auditors in the UK + registration of individual EES auditors as statutory auditors of the United Kingdom + EES auditors for UK companies (parent companies) are included in the ban	1. Services that do not belong to the audit, by Art. 5 of the EU Audit Regulation are prohibited for all foreign companies in the UK (subsidiaries), including banks, insurance, etc. 2. Auditors of British companies (parent) are included in the ban. 3. EES auditors for UK companies (parent companies) are not included in the ban. 4. The need to apply as a statutory auditor in each EES country in which the auditor intends to practice.

Notes: * Financial years beginning before but ending before or after the transition period.

** UK GAAP refers to new standards adopted after the transition period and approved by the Secretary of the Department for Business, Energy, and Industry Strategy of the United Kingdom and the Board of Approval of the United Kingdom.

Source: own development based on standards ⁷²

⁷¹ Directive 2006/43/EU (n.d.).

⁷² Letter DBEIS of UK (2020).

V. Conclusion

In general, the findings of the study (see Table 3) show that in the transition period, British and other listed companies in the UK will not experience significant differences with EU regulations. The reason is quite clear, as the United Kingdom, although not a member of the EU, remains subject to its legislation during this period⁷³. It confirms that the HP1 is realized at the beginning of the post-Brexit. However, given this temporary equivalence in the accounting and auditing systems of the EU and the UK, the discussions on the Free Trade Agreement with the EU leave several issues unresolved for British companies, in particular during the audit. Indeed, after the end of the transition period (from 1 January 2021), many will be faced with the question of the quality of the statutory audit and the legal form of British audit reports prepared for businesses in the EU⁷⁴. In addition, from a financial point of view, many companies will have to attract additional resources to develop an action plan, and risk assessment, retraining of accountants, providing the information needed to make the right management decisions in the future.

Thus, even though business continuity and stability should take precedence over changes in UK law in the first years after leaving the EU, the short-term prospect of correcting these European standards would still bring British companies the first advantage over Brexit. Therefore, reproducing UK national standards will provide a greater variety of financial disclosures and tax relief for British companies in the post-Brexit period. The past practice of the EU and other jurisdictions of IFRS, which it can use as a member of the IASB and a former member of the EU, can play an important role in this.

As a result, the HP2 is confirmed observing the start of the GAAP UK development in the post-Brexit. The paper provides evidence that the UK government is launching the necessary statutory documents for the accounting and auditing sector, together with explanatory letters from the FRC⁷⁵, which will enter into force after 31 December 2020. The study of these documents helps to group the main provisions of the new British system of accounting, financial reporting, and auditing in the post-Brexit period and after its completion (see Table 3). The findings show the government plans to make international standards known as “adopted by the UK” (similar to EU IFRS), and the country will effectively become a “third country” for the EU. Besides, EU Regulation № 2019/685⁷⁶; the new UKEB as a subsidiary of FRC; and the FRC replaced by ARGAs, accountable to Parliament; ARGAs is expected to provide more effective oversight of the Big Four audit firms and to be relevant to the IASB’s development of global accounting standards. It is obtained that one of the most important differences between FRC and ARGAs will be that the new regulator will have the right to investigate company executives, CFOs, and all audit committee chairpersons, regardless of their qualifications. It is concluded as the positive effects of Brexit.

⁷³ LEGISLATION.GOV.UK. The IAS and European Public Limited-Liability Company (2019).

⁷⁴ Accountancy Europe (2018).

⁷⁵ Letter DBEIS of UK (2020).

⁷⁶ FRC.ORG.UK. Endorsement of IAS (2020).

At least, the HP3 is not predicted to be realized in the future even though the UK Government stated in the accompanying memorandum that *“it is in the UK’s interest to maintain convergence with IFRS after leaving the EU, given that IFRSs are used worldwide by more than 140 jurisdictions, including 15 G20 countries”*⁷⁷. It is concluded as the positive effects of Brexit – the British government chooses the path of approval of IFRS in the UK after Brexit similar to the Australian scenario. This means that the new British Accounting and Financial Reporting Standards Board (ARGA), under the control of the British government, will strictly control the current and future development of the IASB standards. Therefore, it excludes the first hypothesis (HP1) in the future as the UK supports the political mood in Britain, which led to Brexit. However, this result is limited because the post-Brexit continues and new documents might be added by the British government. In a conclusion, the confirmed second hypothesis (HP2) allows us to state the status of IFRS in the UK after Brexit depends on the decisions of the new Board (ARGA) for cooperation with the IASB and EFRAG. The observed slow transition from EU IFRS, approval of its own accounting standards mechanism, and focus on future IFRS (IASB) shows that Brexit influenced sufficiently the national (not only British) and regional accounting system, audit, and financial reporting. How it will affect the IFRS internationally might be the topic for further research, particularly, the harmonization with GAAP USA because agreed with Hantrais⁷⁸ in the social domain, a longer period is necessary to uncover the origins of the many factors explaining the Brexit vote.

Moreover, this study confirms the rationality of the post-Brexit if the UK law focuses on:

- 1) taking place in the process of developing or updating international standards in the UK in parallel with the IASB, without expecting final versions of IAS / IFRS. This will simultaneously support the work of the IASB and contribute to the development of its standards;
- 2) the UK’s status as the main jurisdiction of IFRS and the global capital market, to consolidate its right to vote in the formation of IFRS at the level of the IASB after Brexit; the British government should apply to participate in the Monitoring Foundation Council no longer as a member of the European Commission;
- 3) the participation of FRC in the Accounting Standards Forum (ASAF) should simplify the process of separating the country and establishing FRC cooperation with other key national setters of world standards;
- 4) involving the ICAEW in enhancing the macroeconomic role of the UK in the formation of IFRS after Brexit.

The main contribution of this research is the identification that the task of the British government after Brexit – to harmonize national sovereignty with IFRS, taking into account the requirements of the EU – has been successfully implemented after Brexit. The research of the accounting system in the UK after the Brexit period might be the subject of future studies in the context of the effect on IFRS internationally and the UK GAAP locally or regionally (within the EU).

⁷⁷ Bouvier (2020).

⁷⁸ Hantrais (2019), pp. 60–82.

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