

Research of International Financial Reporting Standards and Accounting System in the UK in the Post-Brexit Period

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Abstract

The purpose of this article is to investigate the effect of the Brexit on the IFRS and GAAP UK in the post-Brexit period. The article considers three possible options for such development: 1) continued application of IFRS (EU) by the UK listed companies; 2) creation of a national mechanism for approval of IFRS, similar to the EU; 3) adoption of IFRS without any intervention by the British authorities. As a result, each of the possible development of IFRS and GAAP UK was observed with an estimation of advantages and disadvantages. The research methods based on the quantitative collection of primary data, positivism research philosophy, deductive research approach with elements of descriptive content analysis are considered as important contributions to the research methodology of the Brexit impact investigation. As a result, it was obtained that the British government will choose 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.

Moreover, to keep up with other jurisdictions this study recommends to the UK (1) to take place the process of developing or updating international standards in the UK in parallel with the IASB, without expecting final versions of IAS / IFRS; (2) to participate in the Monitoring Council no longer as a member of the European Commission; (3) to simplify the process of separating the country by establishing FRC cooperation with other key national setters of world standards; (4) the Institute of Certified Accountants of England and Wales (ICAEW), which was at the origins of the IASB, should also be involved in enhancing the macroeconomic role of the UK in the formation of IFRS in the post-Brexit period.

It is concluded, the task of the British government after Brexit - to harmonize national sovereignty with IFRS, taking into account the requirements of the EU - is being successfully implemented in the post-Brexit period. This study is a novelty that covers not only the current state of development of accounting, auditing, financial reporting in the transition period Brexit, but also reveals the forecasts and expectations for further changes after the post-Brexit period. However, the research of the accounting system in the UK after the post-Brexit period (after 2021) 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).

Keywords: Brexit; IFRS; accounting system; local accounting; GAAP UK; audit; financial reporting; European Union

Introduction

For the UK, the EU is the largest market for financial services, which are net exports to the British economy. As mentioned by Lehmann and Zetzsche (2016), “the UK's withdrawal from the European Union will have and already has a dramatic impact on the political, legal and economic landscape, both in Britain and on the continent“. 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 mechanism for applying IFRS have been changing. “The EU financial services framework repeatedly sees a victory of politics or economics over the law – that is, formal legal problems or structures are brushed aside when political necessities or economic exigencies so require” (Ringe, 2018). So, this can be seen as one of the economic consequences of the political influence on the accounting system, which is related to IFRS in whole or in part, depending on the status chosen for IFRS in each country. Thus, the purpose of this study is to investigate the effect of the Brexit on the further development of IFRS and GAAP UK in the post-Brexit period. There are three reasons to focus on this issue.

The first is that the United Kingdom is the second-largest economy in the EU and is also a member of a) the IASB of six professional accounting organizations headquartered in London, b) the European Economic Space (hereinafter – EES), c) the G20 group, d) the European Commission (until May 2019), e) the European Financial Reporting Advisory Group (EFRAG). Thus, the UK's exit from the EU is going to change the status of international standards at both local and regional 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 own FRC in the post-Brexit period is discussed in this article.

Second, there is growing interest in the post-Brexit' effects on different sides of British politics (Inglehart and Norris, 2016; Trueblood, 2020), economics (Arnorsson and Zoega, 2016; Ringe, 2018; Heald and Wright, 2019; Howley and Waqas, 2020), including accounting (Bockli et al., 2017; Heald and Wright, 2019). 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” Brexit way, the UK can take the benefit from the EU's third country 'equivalence' frameworks for financial services, but these are cumbersome and incomplete alternatives to passporting (Armour, 2017). In the hard Brexit way, the British firms may be able to compete just as effectively from New York as from London. According to this, this article identifies three possible options for such a development in the British accounting and financial

standardization system in the post-Brexit period.

Third, the lack of consistent results of prior studies have not been investigated in terms of the accounting system, and moreover, IFRS and GAAP UK. For example, the most prior studies were conducted within 2016 and 2017 after the first voting for Brexit. Among them it was only the study of Bockli et al. (2017) where were mentioned about arising additional issues in the cross-border recognition of accounting standards and activity of auditors. It remained the opened topic about the current effect of the post-Brexit (after 2020) on the further development of IFRS and local accounting standards in the UK. Even though on the study of Heald and Wright (2019) the effect of the post-Brexit on the further development of IFRS internationally and GAAP UK locally has never been investigated.

Therefore, the article considers three possible options for such development: 1) creation of a national mechanism for approval of IFRS, similar to the EU; 2) continued application of IFRS (EU) by the UK listed companies; 3) adoption of IFRS without any intervention by the British authorities. The probable advantages and disadvantages of each were as investigated. It will help to determine the direction of English law in the post-Brexit period and predict the further development of the British accounting system after its completion. To achieve the goal, the study is based on the on the quantitative collection of primary data, positivism research philosophy, 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 current and future development of the IASB standards. The findings show the British government has choose the path of approval of IFRS in the UK after the end of the post-Brexit period similar to the Australian scenario. Overall, the results 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 results make several contributions to the literature.

First, while a considerable number of studies in the 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 world where the UK has held and continues to lead in the global market and in the adoption of IFRS (IASB) and their role for the world. This study is very

necessary from the point of view of accounting perspectives for IFRS and for inclusion in subsequent studies on the development of IFRS (IASB) and GAAP in the UK after the transition period of Brexit.

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

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

This paper is organized as follows. The related literature and development of hypotheses are presented in Section 2. Section 3 describes the research methodology and samples. Section 4 provides and interprets the result of the main analysis of the Brexit effect on the further development of IFRS and local accounting standards in the UK. A concluding discussion is presented in Section 6.

Literature Review and Hypothese Development

Among previous studies, Brexit issues have not been frequently published in scientific publications in both British and international journals, especially in the terms of accounting and financial reporting under IFRS or GAAP in the UK.

In particular, among the British publications it was found the opinion of Craig (Craig, 2016) 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 have decided to leave the EU and the 29 March 2017 notification to the European Council of the UK intention to withdraw from the Union, these consequences were very quickly felt in all legal systems as in the UK and the EU (Bockli et al., 2017), as well as trade relations with Asia (Wu, 2020). 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 London (Bodellini, 2017).

Some scholars saw the reason for the complication of this situation in industry regulations, rather than the Companies Act (Bockli et al., 2017); others explained this as a deeper structural weakness in the use of referendums in the UK (Trueblood, 2020). For example, in the UK before Brexit, referendums were used “unplanned” and specifically when it was politically convenient. The expression Inglehart and Norris (2016) that “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” is apt here. But to understand the reasons, in the social domain, indeed, a much longer time span is necessary to uncover the origins of the many factors explaining the Leave vote.

The publication by Arnorsson and Zoega (2016) summarizes that Brexit was advocated in most parts of the UK, where GDP is low and most people have a low level of education, age over 65, and where is strong net immigration. That is, most Britons believe that approaching immigrants in the UK after joining the EU have had a negative impact on the British labor market (Alfano et al., 2016; Cumming and Zahra, 2016; Howley and Waqas, 2020). Although this is not entirely justified in terms of literature. For example, Colantone and Stanig (2016) rearranged 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 have been more convinced of the negative effects on the British economy of imports from China over the past three decades. Cumming and Zahra (2016) 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 future (Arnorsson and Zoega, 2016). Also, the negative effect of Brexit on the UK economy was predicted by Driffield and Karoglou (2016) in the context of the impact of global currency adjustments on domestic investment flows to the UK. In addition, 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 of time. However, Wu (2020) noted that the sense of competitive liberalization motivates the UK pursuit for trade opportunities with East Asia.

Also, the previous studies have noted that the EU will also have significant negative effects after Brexit. For example, (i) the EU has to prove its continuous relevance in the international economic relations that the UK couldn't call as active and flexible trade relations (Wu, 2020); (ii) the EU will receive a budget cut as the UK, as one of the EU's largest economies, stops funding it. However, Nunez and Rinaldi (2016) 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 budget. 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 it (Nunez and Rinaldi, 2016). Schaefer (2020) 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 Brexit.

As shown 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; 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 Ireland. 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, giving freedom to labor immigrants (AICPA, 2019).

Ringe (2018) called in his study Brexit commonly painted 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 supremacy 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 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 on the basis of regulatory equivalence. "If an agreement is not achieved, private solutions by market actors are likely" - he noted (Ringe, 2018).

However, Bartels (2016) saw that Britain's position after leaving the EU would not change at all within the WTO (Bartels, 2016). The scientist admits that such an advantage will be gained by the UK due to EU membership, because

after the Brexit, WOT 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 in the strong position of Great Britain in public procurement by EU member countries.

Lehmann and Zetzsche (2016) argued for the neutral position of Brexit influence on certain relations and business, carefully studied the consequences of Brexit in five areas: contract law, the law of non-contractual obligations, corporate law, financial law, and international litigation. 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 in the pre- and post-Brexit periods.

In addition, the literature review of previous publications allowed to reveal a link between Brexit and accounting only in small numbers. For example, in the pre-Brexit period Bockli et al. (2017) noted that additional issues will arise for cross-border recognition of accounting standards and for the activity of auditors.

In the post-Brexit period, Held and Wright in 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, budgeting, but also forecasting the country's fiscal stability. In general, the researchers noted that Brexit is a unique operation, unlike other withdrawals from states or the termination of commercial contracts that have taken place before (Heald and Wright, 2019). 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.

To sum up, the literature review of the prior studies allows 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 lead to the following hypothesis:

Hypothesis 1: 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.

Although even in the case of the “hard” Brexit scenario, the UK can take the benefit from the EU's third country 'equivalence' frameworks for financial services, but these are cumbersome and incomplete alternatives to passporting (Armour, 2017). In the hard Brexit way, the British firms may be able to compete just as effectively from New York as from London. 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 year (AICPA, 2019). 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” (AICPA, 2019).

Thus, it could create a second way to develop a national accounting system in the UK after Brexit - the convergence of own GAAP with US GAAP or the departure from IFRS (IASB) towards the development of its own accounting system. These arguments lead to the following hypothesis, stated in alternative form:

Hypothesis 2: 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 development IFRS (IASB). Hence, it states

Hypothesis 3: The UK government will adopt current and

future IFRS (IASB) without any intervention by the British authorities.

Research Methodology

According to the observed above prior studies, it was not found the used research methodology that is similar to this aim of the paper. Thus, in this article, it was chosen the Research Onion model (Saunders et al., 2012), which is one of the most popular models used in academic researches. Regarding this, the research methodology was prepared by following the particular structure to make the research process more comprehensible for the readers.

Research Philosophy.

The research philosophy in this study was based on the positivism because in positivism studies the role of the researcher is limited to data collection and interpretation in an objective way. Moreover, the reason for this choice was related to the findings of this study that were obtained observable and quantifiable as the philosophy of positivism requires.

Types of Research.

As the research area do 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 on the further development of IFRS and GAAP UK in the post-Brexit period. As a result, it helped to expand the scientific understanding of the Brexit' reasons, the aim of the British government for the future and the consequences for the accounting system locally (in the UK), regionally (in the EU) and internationally (for IFRS adopted by IASB).

Research Approach.

To test the relevance of the three research hypotheses, the deductive approach was used in this study. This explained the reason of absent in the paper the research questions. As the deductive reasoning should be based on existing theory, the British law documents, the prior studies and surveys were included for researching this goal (Letter DBEIS of UK, 2020). The highlighted research hypotheses (H1, H2, H3) have not been investigated in so comprehensive manner. It helped to observe the large information about the Brexit impact on the various part of economics (Arnorsson and Zoega, 2016; Ringe, 2018; Heald and Wright, 2019; Howley and Waqas, 2020), including accounting (Bockli et al., 2017; Heald and Wright, 2019), politics (Inglehart and

Norris, 2016; Trueblood, 2020), to contribute to the current literature the explanations of existing problems of the UK in the post-Brexit period and to predict the possible ways of this impact on the accounting, financial reporting, taxation and audit systems in the UK after 2020. 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.

Research Design.

As the research aim was to observe advantages and disadvantages of the Brexit impact on the GAAP UK, accounting, financial reporting and audit rules, the research design was conclusive with descriptive elements for explanations of evidences. The research strategy was descriptive because it aimed to examine the impact of the UK's exit from the EU on the further development of IFRS in the country and local accounting standards. It helped to provide a final and conclusive evidences to the research hypotheses (H1, H2, H3), built in Section 2, without influencing it. The chosen descriptive research strategy matched with the target paper to describe the current situation in the UK after Brexit, in particular, focused on the news in accounting, auditing and financial reporting regulations in the post-Brexit period and after it (2021), filled into the descriptive table.

Time Horizon.

In this study, it was gathered data about the accounting, auditing and financial reporting regulations at a single point of time – within 2020. It means it was used the cross-sectional time horizon. It helped to develop the descriptive table focused on understanding the current situation in the UK. As a result, it was obtained the analysis of normative regulations issued within 2020 (the post-Brexit period).

Data Collection Methods.

To collect data for this investigation it was used the primary data because the consequences of the post-Brexit period for the UK accounting standards had not been previously published in journals (see Section 2), the IASB website, and other sources. Thus, in this study, to collect primary data, it was used the cross-sectional survey between the previous scientist's studies (Seidler, 1967; Kuznechikova, 2018; Kean, 2019; Bouvier, 2020) and normative documents associated with accounting, audit, and financial reporting (the Letters of FRC (Letter DBEIS of UK, 2020), EU Regulation no. 2019/685 (Endorsement of IAS, n.d.)). It made this research more original, but it required more time and effort to present it shortly. That is why the primary data was gathered and performed in the descriptive table (see table 2) after analyzing the FRC explanatory letters which

will enter into force after 31 December 2020 (finishing the post-Brexit period).

As in this study it was involved descriptions of objective evidences, 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, it was used the qualitative data. This use of a qualitative data aimed to understand the current situation in the British accounting and to predict its future development on the UK GAAP and IFRS. This qualitative data has no subjectivity because in positivism studies the role of the researcher is limited to data collection and interpretation in an objective way. It helped to indicate the data for following possible options for development of IFRS and GAAP UK in the post-Brexit period: 1) continued application of IFRS (EU) by the UK listed companies; 2) creation of a national mechanism for approval of IFRS, similar to the EU; 3) adoption of IFRS without any intervention by the British authorities. As they were based on the real possible ways of the development further situation in the UK accounting, therefore, it was excluded any subjective point of views in these qualitative data. As a result, the study was made only within these qualitative data. The used qualitative research designs tend to be more flexible, allowing to the readers to adjust this approach based on new findings of the future researches.

Data Analysis Methods.

According to the primary qualitative data for conducting the research process, the qualitative method for analyzing data was chosen. The 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 FRC (Letter DBEIS of UK, 2020). As noted by Merigo et al. (2017) bibliometrics is very useful for the organization of existing knowledge within the scientific discipline. The provided bibliometric analysis in this paper aims to do an objective review of the scientific literature found by the 'IFRS', 'GAAP UK' and 'Brexit' keywords. It helped to review several articles that studied the Brexit impact before 2020 and 2020 using in this paper the deductive research approaches with elements synthesis and classification. The normative analysis of Letters DBEIS of UK (2020) was also required to be conducted to achieve the research goal. That is why it was used to understand the current situation in the UK most based on law rules.

As a result, the content analysis of the financial reporting and accounting regulations in the UK in the post-Brexit period had been presented within 2020. This analysis was

used to analyze large volumes of textual data collected from literature reviews and normative documents for the given period. This analysis was based on normative documents of FRC within 2020. In this study, the comparative analysis of advantages and disadvantages of possible ways of the development of the future accounting system and standards in the UK was performed. It helped to group pluses and minuses for each possible way of the development and presented them in the self-developed comparative table.

Structure of Research.

Overall, the performance strategy to reach the main goal of this paper could be described as follows.

In the first step, the prior studies included the 'IFRS', 'GAAP UK' and 'Brexit' keywords were investigated at the SSRN database. To present them, a bibliometric analysis dividing literature into two categories: 1) the studies related with accounting development; 2) the studies related only with Brexit and other fields. It helped to find out the gaps in the prior literature associated with the Brexit effect on the development of IFRS, GAAP UK in the post-Brexit period in the UK; to highlight the relevance this research topic nowadays and to state the research hypotheses (H1, H2, H3).

In the second step, according to the constructed hypotheses, the comparative table for further possible development of IFRS and GAAP UK in the post-Brexit period was presented (see Table 1). In the developed comparative table, the advantages and disadvantages of possible ways of the development of the future accounting system and standards in the UK were performed. Then, three options of the further possible development of IFRS and GAAP UK in the post-Brexit period were argued step-by-step. It helped to understand all pluses and minuses of each option if the UK chose one of them. Moreover, the given explanations were associated with each research hypotheses that allowed to support and controvert each simultaneously.

In the third step, considering the different opinions of FRC, British government about the way for IFRS in the UK and further development of the GAAP UK, the Letters of FRC issued in February 2020 that consist information on the transition period for auditors and firms (Letters DBEIS of UK, 2020) were presented shortly in the tabular form classified actual regulation norms on two periods: transition and end of the transition. In addition, the transition period (31.01.2020-31.12.2020) 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 way what will be in the nearest data realized in the UK for accounting development after Brexit and to approve the first hypothesis (H1) at the beginning of the transition period – continue to apply IFRS adopted by EU for UK listed companies. However, the intend to create new Board (AFRAG) also helped to confirm the second hypothesis in the future – the establishment of the national standards approval mechanism controlled by government (H2). Thus, the ICAEW, FRC positions that helped to state the third hypothesis, were not confirmed for the further development of the GAAP UK (H3).

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. Johnson (Johnson, 2020). That is, like a perfectly "purified" democracy in the United States, 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 a highly distorted picture of the consequences of the UK's accession to the EU (Democracy, 2020). 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 in the post-Brexit period.

It is known that there are three geographical areas of influence on accounting: British, American, and continental European (Seidler, 1967). 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 only 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 statements (IFRS, 2020).

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: first, apply to participate in the monitoring council no longer as a member of the European Commission; secondly, 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 origins of the IASB, may also be involved in enhancing the macroeconomic role of the UK in the formation of IFRS in the post-Brexit period. 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) (Institute of Chartered Accountants in England and Wales, n.d.) 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“ (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) № 1606/2002 (Regulation EU No 1606/2002, n.d.) 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 table 1).

Table 1

Possible versions for changes in the British accounting standards after Brexit in terms of advantages and disadvantages

№	<i>I version</i>	<i>II version</i>	<i>III version</i>
	<i>IFRS (EU)</i>	<i>GAAP UK</i>	<i>IFRS (IASB)</i>
Characteristic	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.
	<ul style="list-style-type: none"> ✓ Sensitivity to loss of power in the EU; ✓ Slows down the decision-making process in the UK; 	<ul style="list-style-type: none"> ✓ Significant time and resources associated with the establishment and operation of a separate national 	

Disadvantages	<ul style="list-style-type: none"> ✓ 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 	standards approval mechanism; <ul style="list-style-type: none"> ✓ 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
Advantages	<ul style="list-style-type: none"> + Easy in legislative terms; + Avoids the costs associated with the operation of a separate national standard approval mechanism 	<ul style="list-style-type: none"> + 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 	<ul style="list-style-type: none"> + 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

Source: own development.

The First Option. The EU's decisions at the beginning of the changes will continue to directly or indirectly affect 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 to 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 [cg102]. 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 option), 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 (answer to the above question) - 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 directives must remain a priority at the legislative level of the country in the future. For example, future British standards will have to: 1) comply with the principle of "true and fair" reflection; 2) to promote the public good in Europe and not jeopardize its financial stability; 3) meet the basic criteria of quality information (clarity, relevance, reliability, comparability), necessary for the submission of financial statements to users; 4) provide the necessary information for economic decisions and evaluation of management (The impact of Brexit, 2020).

Also, if this variant of changes is chosen (see table 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 option. 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 2013 (Directive 2006/43/EU, n.d.). 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, gender pay, tax strategy, payments to

governments), providing better transparency and comparability, especially with the parallel development of electronic (XBRL) 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, 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) (Kuznechikova, 2018).

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, new methods of obtaining VAT refunds from European tax authorities needs special attention. It is obvious that having lost access to the European mechanisms of the "single window" (Kuznechikova, 2018), 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.

Therefore, after Brexit, in the case of choosing the first option of change (see table 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 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 IASB (The impact of Brexit on the application, 2018). 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 mechanism (The impact of Brexit, 2020). 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 table 1 versions should be acute.

The third option. 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 experimentation in 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 benchmark 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 with IFRS. Therefore, the UK, as a powerful financial center in the world, should not deviate from IASB standards (The impact of Brexit, 2020).

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" (FRC, n.d.).

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 FRC (Letter DBEIS of UK, 2020), 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 2).

Table 2
Regulation of accounting, financial reporting, and auditing rules by the UK government in the post-Brexit period

<i>Types of companies</i>	<i>Adjustable period:</i>	
	<i>Transition</i> <i>(31.01.2020-31.12.2020) *</i>	<i>End of the transition period</i> <i>(since 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	international standards adopted by the EU
	(including the Transparency Directive 2004/109/EU [ППМ] and the Outlook Directive 2013/50/EU (Directive of the European Parliament, 2020)), even new and amended EU standards	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
- 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 (Directive 2006/43/EU, n.d.)	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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)	<p>Unchanged</p> <p>for EES auditors in the UK</p> <p>+</p> <p>registration of individual EES auditors as statutory auditors of the United Kingdom</p> <p>+</p> <p>EES auditors for UK companies (parent companies) are included in the ban</p>	<ol style="list-style-type: none"> 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 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 (Letter DBEIS of UK, 2020).

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 № 2019/685 (Endorsement of IAS, n.d.) 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) (UK endorsement of IFRSs post-EU-exit, 2019).

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 to 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 future chairman of ARGA (Will ARGA restore trust in audit, n.d.).

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." (Will ARGA restore trust in audit, n.d.).

The example of the history of the United States and Australia shows that the more aggressive the regulatory regime, the greater the likelihood of civil lawsuits against directors (Kean, 2019), 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 it.

Conclusions

The purpose of this paper is to investigate the effect of the Brexit on the further development of IFRS and GAAP UK in the post-Brexit period. To achieve the aim paper, the three possible options for such development are considered: 1) continued application of IFRS (EU) by the UK listed companies; 2) creation of a national mechanism for approval of IFRS, similar to the EU; 3) adoption of IFRS without any intervention by the British authorities. The estimation of advantages and disadvantages for each possible way of IFRS and GAAP development in the UK after Brexit is presented.

In general, the findings of the study (see table 2) 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 (see "first option" above), as the United Kingdom, although not a member of the EU, remains subject to its legislation during this period (The IAS and European Public Limited-Liability Company, 2019). It confirms that the first hypothesis 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 EU (Implications of Brexit, n.d.). In addition, from a financial point of view, many companies will have to attract additional resources to develop an action plan, 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, but 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 the 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 second hypothesis 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 FRC (Letter DBEIS of UK, 2020), 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 2). 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 № 2019/685 (Endorsement of IAS, n.d.); the new UKEB will be a subsidiary of FRC; and the FRC will be replaced by a new Body (ARGA), accountable to Parliament; ARGA 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 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. It is concluded as the positive effects of Brexit.

At least, the third hypothesis 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 IFRS are used worldwide by more than 140 jurisdictions, including 15 G20 countries” (Bouvier, 2020). It is concluded as the positive effects of Brexit - the British government will choose 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 current and future development of the IASB standards. Therefore, it excludes the first hypothesis 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.

As a conclusion, the confirmed second hypothesis allows 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 on the national (not only British) and regional accounting system, audit and financial reporting. How it will effect on the IFRS internationally might be the topic for further researches, particular, the harmonization with GAAP USA because agreed with Hantrais (2019) in the social domain, a much longer time span is necessary to uncover the origins of the many factors explaining the Brexit vote. Moreover, to keep up with other jurisdictions this study recommends to the UK after Brexit

(1) to take place 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) 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, the British government should apply to participate in the monitoring council no longer as a member of the European Commission;

(3) the participation 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) the Institute of Certified Accountants of England and Wales (hereinafter - ICAEW), which was at the origins of the IASB, should also be involved in enhancing the macroeconomic role of the UK in the formation of IFRS in the post-Brexit period.

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

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