JOURNAL
OF EUROPEAN ECONOMY
Vol. 22. № 2 (85). April–June 2023
Publication of West Ukrainian National University

European Economic Integration

Liudmyla SHKULIPA

NEW GUIDELINES FOR THE APPLICATION OF INTERNATIONAL ACCOUNTING AND REPORTING STANDARDS AFTER BREXIT

Abstract

The UK's exit from the EU is currently being studied not only as a major change in geopolitics, but also as a precursor to economic factors that create many accounting and taxation issues between Dublin, London and Brussels. The paper aims to review, identify and predict new guidelines for the application of International Financial Reporting Standards (IFRS) after the UK's exit from the EU. Three possible benchmarks for the development of British accounting and auditing system after Brexit are identified. The article makes a significant contribution to the research by analytically assessing the UK's accounting regulations after its exit from the EU, and comparing the functions of the new financial accounting board in London with those of the previous board. The study helps to define the guidelines for the further application of accounting standards in the UK and to highlight the prospects for the development and application of IFRS, both in the short and long term. For Ukraine, at a time of potential accession to the EU in 2024-2025, these issues are also relevant, as the UK, in addition to the EU, has become a significant economic partner for Ukraine during the war.

Shkulipa, Liudmyla, Doctor of Economics Sciences, associate professor, State Tax University of the Ministry of Finance of Ukraine, Kyiv, Ukraine. ORCID: 0000-0003-1842-0219 Email: job.shkulipa@gmail.com

Key words:

Brexit; accounting standards; taxation; Directive; United Kingdom; European Union.

JEL: M48, K22, G15, G17.

1 figure, 3 tables, 37 references.

Problem Statement and Literature Review

The EU is the largest market for financial services for Britain, which are a net export of the British economy. The UK's exit from the EU (Brexit) is already having a dramatic effect on the political, legal and economic landscape both in the UK and on the European continent (Lehmann & Zetzsche, 2016). Indeed, since Brexit in January 2020, the economic and political environment has changed internationally, and thus the global business and IFRS landscape has shifted.

It is not the first time that the EU financial services system has seen politics or economics override the law, i.e., formal legal guidelines or frameworks are discarded when political or economic needs require it (Ringe, 2018). This can be considered one of the economic consequences of the political impact of Brexit on the national accounting systems, which are fully or partially linked to IFRS, depending on the country's chosen IFRS status.

There are at least three main reasons to focus on this impact. First, the UK 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 Area (EEA), the G20 group, the European Commission (until May 2019), and the European Financial Reporting Advisory Group (EFRAG).

Brexit changes the status of international standards at both local (UK) and regional (EU) levels. This article discusses the role of the IASB and UK standards, whether the UK will remain part of EFRAG or completely reformat its own FRC after Brexit.

Second, there is growing interest in the consequences of Brexit for various aspects of British politics (Inglehart & Norris, 2016; Trueblood, 2020; Meyenburg, 2022), and social and economic phenomena (Arnorsson & Zoega, 2016; Ringe, 2018; Heald & Wright, 2019; Howley & Waqas, 2020), including accounting (Böckli et al., 2017; Heald & Wright, 2019; Boulhaga et al., 2022) and taxation (Strobel, 2017). Further development of accounting and financial reporting, audit and taxation rules in the UK depends on whether the UK remains in the EU single market. Although even in the case of a «hard» exit, the United Kingdom will be able to take advantage of EU concepts of equivalence of financial services for third countries (Armour, 2017). In this case, British firms will be able to compete as effectively from New York as from London. Accordingly, the article identifies three possible guidelines for the operation of the British accounting and auditing system after Brexit.

Third, previous studies did not address changes in terms of the accounting system (Table 1). For example, research began in 2016 after the first Brexit vote. In particular, there was a study (Böckli et al., 2017) that discussed the inconsistencies that would arise in cross-border accounting standards and auditors' activities.

Table 1

Analysis of articles with the keyword "Brexit" in scientific publications in 2016-2023*

Area	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: compiled by the author using the data of Wiley Online Library.

As shown in Table 1, the impact of Brexit on the development of IFRS and local accounting standards in the UK remained an open question. Given the findings of Heald and Wright (2019), the impact of Brexit on the further development of regulatory accounting at the international and local levels has hardly been studied at all (Table 2).

Table 2

Literature review on Brexit in the «Accounting» category of scientific publications

Sub-category	2016	2017	2018	2019	2020	2021	2022	2023*
– accounting for the public sector	x	x	x	1	x	x	x	x
– accounting modes	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
– performance efficiency	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 impact	x	x	x	x	x	x	x	1
– currency transactions	x	1	x	x	1	x	3	x
– regulatory accounting (standards, directives, etc.)	x	x	x	x	x	x	x	x
Other (economic impact, 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: compiled by the author using the data of Wiley Online Library.

Thus, as Table 2 shows, even among the accounting topics mentioned above, the direct study of standards, their changes after Brexit, its impact on the accounting, auditing, and reporting system both in the country and in the EU member states was not taken into account by scientists. According to our forecasts, this is the area that will be subject to adjustments in the UK legislation. And since the country participates in the development of IFRS and their application, these standards will get new references to the British ones, or vice versa. The third possible option is a mixed one – harmonization of both accounting systems and standards while maintaining national sovereignty in accounting and reporting.

The purpose of this article is to review, identify and predict – if and what – new guidelines for the application of IFRS and GAAP exist in the UK in the post-Brexit period. Therefore, the article considers three possible guidelines for the development of regulatory accounting in the UK:

i) establishing a national mechanism for the approval of IFRS similar to the EU;

ii) continued application of IFRS (EU) by companies registered in the UK;

iii) adoption of IFRS without any interference from the British authorities.

A significant number of studies in macroeconomics, politics, international relations, public law and jurisprudence have documented the impact of Brexit on the EU and the UK from different perspectives (effective, negative and neutral). Despite this, further development of accounting in science has gone unnoticed in the context of the UK, which used IFRS (EU), and the world, where the UK has been and continues to be a global market leader in the adoption of IFRS (IASB). This research is much needed in terms of accounting perspectives for IFRS and incorporating their development into future research, taking into account topics related to GAAP in the UK after the Brexit transition period.

Brexit has been studied at all stages of its progress, but the transition period for the UK in 2020 has not received sufficient coverage in various areas of state-building and national economic development, including accounting. Thus, this study is unique in that it covers not only the development of accounting, auditing and financial reporting during the Brexit transition period, but also reveals forecasts and expectations for further changes in the international accounting system after Brexit.

In previous studies, Brexit and post-Brexit issues have not often been covered in terms of accounting and financial reporting under IFRS or GAAP in the UK. As shown in Table 1 above, no topics related to Brexit were covered that were close enough to accounting. In particular, some British authors have expressed the opinion (Craig, 2016) that Brexit was as impossible as fair elections of the British Prime Minister. That is, the British did not believe in Brexit, and they saw the Brexit process as a way to prolong the political struggle, as Craig explained, dividing the entire period before Britain's exit from the EU into six acts of a Shakespearean play.

However, following the referendum on June 23, 2016, in which the British decided to leave the EU, and the notification to the European Council on March 29, 2017, of the UK's intention to leave the Union, the consequences were quickly felt across all legal systems, both in the UK and the EU (Böckli et al., 2017), and in trade relations with Asia (Wu, 2020). This resulted in tension between the two systems of recognition of foreign companies. Most of those headquartered in the UK were expected to be disqualified, including most alternative investment funds, mainly located in London as well (Bodellini, 2017).

Some scholars believed that industry regulations, rather than the Companies Act that regulates the accounting system, were responsible for the aggravation of this situation (Böckli et al., 2017); others explained it by institutional weaknesses in the use of referendums in the UK (Trueblood, 2020).

For example, in the UK, before Brexit, referendums were «unplanned» and held when it was politically convenient. As Inglehart and Norris (2016) claimed, the most common view of mass support for populism – the perspective of economic insecurity – emphasizes the consequences of the profound changes transforming labor and society in post-industrial economies. But to understand the reasons, a much longer period in the social domain is indeed needed to uncover the origins of many factors explaining the vote to leave.

Arnorsson & Zoega (2016) summarized that Brexit was favored in most regions of the UK where GDP was low and most people had low levels of education, were over 65 years old, and where immigration was high. In other words, the majority of Britons believed that the approach to immigrants in the UK after joining the EU had a negative impact on the British labor market (Alfano et al., 2016; Cumming & Zahra, 2016; Howley & Waqas, 2020). However, this is not entirely justified from the point of view of the analyzed literature. For example, Colantona and Stanig (2016) did not believe in a link between the country's approach to immigrants and the Brexit vote, but their analysis of British election survey data showed a strong causal correlation between the two. Researchers were more confident about the negative impact of imports from China on the British economy 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 related to the uncertainty created by Brexit.

In addition, investors viewed Brexit as a negative event for the country's economy and their own business in the future (Aronorsson & Zoega, 2016). The negative impact of Brexit on the UK economy was predicted in the context of global currency adjustments on domestic investment flows to the UK (Nunez-Ferrer & Rinaldi, 2016). Despite zero inflation in the pre-Brexit period, the amount of debt for Brexit was expected to constrain the flow of pounds to the UK for a long period of time. However, it was noted that the sense of competition liberalization will encourage the United Kingdom to seek trade opportunities with East Asia (Wu, 2020).

Previous studies have also noted that the EU would also face significant negative consequences after Brexit. For example, the EU will have to prove its continued relevance in international economic relations, which the UK will not be able to call active and flexible trade relations (Wu, 2020). Moreover, the EU will face budget cuts, as the UK, as one of the largest EU economies, will stop funding it. However, another study noted that the potential contribution that the UK would have to make as a condition for gaining access to the internal market would smooth out the significant impact of Brexit on the EU budget (Nunez-Ferrer & Rinaldi, 2016). Even if the United Kingdom stays out of the single market, tariff revenues will account for a significant share of the «net loss». In other words, the EU is not expected to lose either side of Brexit, while the UK will gain limited financial benefits from it (Nunez-Ferrer & Rinaldi, 2016). Schaefer and Kämmerer (2020) also confirmed this, adding that the EU's internal market is growing at least as fast as those of other high-income economies like China and India, which the UK would have had better prospects for expanding trade with as a member of the EU, without Brexit.

According to an AICPA survey, analysts predict the consequences of Brexit will be detrimental to both sides: for the EU – the loss of a major regulator of the common market, the risk of a domino effect that could lead to the secession of other countries from the Union; and for the UK – a 1.5% reduction in GDP, a 10% devaluation of the euro, a reduction in trade, a slowdown in economic growth by at least 0.5% per year for 15 years, an internal split between England, Wales, Scotland, and Northern Ireland (in fact, this is already happening as of March 2023 – some EU laws continue to apply to Northern Ireland). This despite the British themselves believing that EU membership has hindered the country's development by providing billions of pounds to the European budget, restricting business and giving freedom to labor immigrants (Association of International Certified Professional Accountants (AICPA), 2019).

In his research, Ringe (2018) described Brexit as a scenario almost similar to the apocalypse. In particular, the author foresaw a significant delay in financial integration in Europe after Brexit and a threat to London's authority (as a global financial center), which will result in significant costs for all market participants. However, the author's opinion was controversial compared to other researchers – he predicted that the impact of Brexit on financial services would be insignificant. He justified this optimism by the firm position of both sides (the UK and the EU), which are likely to reach an agreement on the basis of regulatory equivalence. If such agreement falls through, Ringe (2018) claims «private solutions by market actors are likely».

However, Bartels (2016) believed that the UK's position after leaving the EU would not change at all within the WTO. The scholar recognized that the UK did not enjoy such an advantage due to EU membership, since after Brexit, the

UK would retain the WTO rights and obligations, same as before. The author highlighted a more complicated situation with tariff quotas and agricultural subsidies, for which the UK 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 was assured of its successful outcome in terms of the UK's strong position in public procurement by EU member states.

Lehmann and Zetzsche (2016) took a neutral stance on the impact of Brexit on certain relationships and businesses and thoroughly examined the consequences of Brexit in five areas: contract law, law of non-contractual obligations, corporate law, financial law, and international litigation. Despite the absence of accounting on this list, the issues of British law, the status of companies in the EU, the fate of European public companies headquartered in the UK, access of British banks to the EU market, and the conditions for insurance companies after Brexit were still considered. This may be useful for studying the impact of Brexit on the country's accounting system, national taxation system and the conditions for applying IFRS or UK GAAP by European and UK Brexit companies.

In addition, the literature review of previous publications has only found a small number of links between Brexit and accounting standards. For example, prior to Brexit, some authors noted that there would be additional challenges in the cross-border recognition of accounting standards and auditors (Böckli et al., 2017). Others considered the environment and the implications for audit planning (Oestricher & Beasley, 2018), and some changes in international taxation (Strobel, 2017).

After Brexit, Heald and Wright in September 2019 presented their opinion that the existing amount of Brexit debt to the EU will affect not only the UK's financial statements, statistics and budget, but also the forecasting of the country's fiscal stability. In general, the researchers noted that Brexit is a unique event, unlike other state withdrawals or terminations of commercial contracts that have occurred before (Heald & Wright, 2019). However, they revealed the weaknesses and contradictions of the UK's post-Brexit negotiating position with the EU and the dominance of EU views in the budgetary calculations of the 2014-2020 multiannual financial framework that keeps the EU in existence. Thus, scholars argued that the amount that the UK would have to pay after leaving the EU would largely depend on the country's competitive prospects and contingent liabilities associated with the EU's increasingly difficult financial situation.

An AICPA survey of 844 U.S. financial and business executives on the impact of Brexit on U.S. businesses, conducted in March 2019, reported a neutral opinion of 71% of CEOs, while negative opinions increased from 4% to 16% over the year (AICPA, 2019). Only 34% of respondents were optimistic about the future of the global economy, which was half as much as in the previous year's survey (71%). In addition, the survey showed that confidence in the improvement of the U.S. economy also decreased from 79% to 57%. Global trade tensions were cited as one of the main reasons for the 43% drop (compared to 36% of last year). Perhaps that is why the United States offered the UK a free trade agreement without the EU in July 2020. However, the AICPA noted that business leaders often overshadow the U.S. economy (AICPA, 2019). Thus, it can create a second benchmark for the development of the national accounting system in the UK after Brexit – the convergence of the UK's own GAAP with U.S. GAAP or the departure from IFRS (IASB) in the development of its accounting system.

The study aims to investigate the economic impact of the UK's exit from the EU on the application of international and UK accounting and financial reporting standards. For Ukraine, at the stage of its accession to the EU in 2024-2025, these issues are also essential for consideration and further research, as the UK, in addition to the EU, became a significant economic partner for Ukraine during the war.

Methodology

The chosen *descriptive research strategy* was in line with the research objective to describe the economic situation in the UK after Brexit, in particular, focusing on changes in accounting, auditing and financial reporting after Brexit, as presented in the descriptive table. *Primary data* were used to compile the table, as the implications of Brexit for UK accounting standards have not been previously published in journals, on the IASB website or in other relevant regulatory sources.

To collect the primary data, a cross-sectional study was used between previous research by scholars (Seidler, 1967; Kuznechikova, 2018; Kean, 2019; Bouvier, 2018) and regulations related to accounting, auditing and financial reporting – UK Financial Reporting Council's (or FRC) guidance notes in force after December 31, 2020 (Department of Business, Energy & Industrial Strategy, 2020), and EU Directives, in particular No. 2019/685. The results are presented in the descriptive table (Table 3).

The strategy for achieving the main goal of this study can be described as follows. The first step was to examine previous studies that included the keyword Brexit, using the Wiley Online Library database for 2016-2023[1]. In order to summarize them, the literature was divided into two categories using bibliometric analysis: (i) studies related to the development of accounting; and (ii) studies related only to Brexit and other areas. The second step involved creating a comparative table to explore possible new guidelines for the application of IFRS and GAAP in the UK after Brexit (Fig. 1). The comparative table shows the advantages and disadvantages of these guidelines and justifies them in detail. In the

[1] 2023 includes only January, February and March.

third stage, taking into account the different views of the UK government on the continued application of IFRS and GAAP in the UK, as well as the FRC's February 2020 Letters containing information on the transition period for auditors and firms (Department of Business, Energy & Industrial Strategy, 2020), the article classifies the new accounting regulations in tabular form into two periods: transition and post-transition.

That is, the transition period lasted from 31.01.2020 to 31.12.2020, while the post-transition period began on 01.01.2021, since when GAAP UK refers to the new standards adopted after the transition period and approved by the Secretary of the Department for Business, Energy and Industrial Strategy and the new UK Financial Reporting Advisory Board (FRAB) for the adoption of IFRS.

Research Results

Historically, there have been three geographical areas of influence on accounting: the United Kingdom, the United States, and continental Europe. Accordingly, the three most influential organizations in the world responsible for the development of IFRS are the IASB (104 countries), the American Financial Accounting Standards Board (USA) and EFRAG (EU countries). Before leaving the EU, the United Kingdom was part of two of the three boards: IASB and EFRAG.

Clearly, after Brexit, the country will remain a part of only one international organization – the IASB. However, given the IASB's three-tier governance structure, the UK will also withdraw from the IFRS Foundation Monitoring Board, created in 2009 from the largest capital markets responsible for setting the format and content of financial statements.

As the FRC is part of the Accounting Standards Advisory Forum (ASAF), which aims to streamline the relationship between the IASB and the global community in Europe and the rest of the world, it simplifies the process of national separation and the establishment of FRC cooperation with other key national standard setters.

In addition, the Institute of Chartered Accountants in England and Wales (ICAEW), which was instrumental in the creation of the IASB, may also be involved in strengthening the UK's macroeconomic role in shaping IFRS after Brexit. ICAEW, as one of the established leaders in the creation of a single set of high-quality global accounting standards and their application worldwide, regularly meets with representatives of the US SEC, EFRAG, IASB and other international organizations interested in IFRS reporting. It also has representative offices in Belgium, China, Hong Kong, Indonesia, Malaysia, Singapore, Singapore and the United Arab Emirates, as well as about 147,000 certified public accountants worldwide (ICAEW, n.d.-a). The need for strong national standard setters is greater than ever. The UK financial reporting community should strive for sustainable global impact (ICAEW, n.d.-a).

The next question is whether the UK should continue to participate in EFRAG and maintain its influence on IFRS development in the EU. Ultimately, to maintain its importance in shaping IFRS internationally, it will have to adopt several domestic changes to its accounting and financial reporting legislation (including the Companies Act 2006), which prior to Brexit was governed by Regulation (EC) No 1606/2002 and the Seventh Directive. Thus, the future status of IFRS in the UK after Brexit depends on the guidelines chosen by the UK Government and the Financial Reporting Council (FRC) regarding cooperation with the IASB, EFRAG or the creation of its own IFRS endorsement mechanism (Fig. 1).

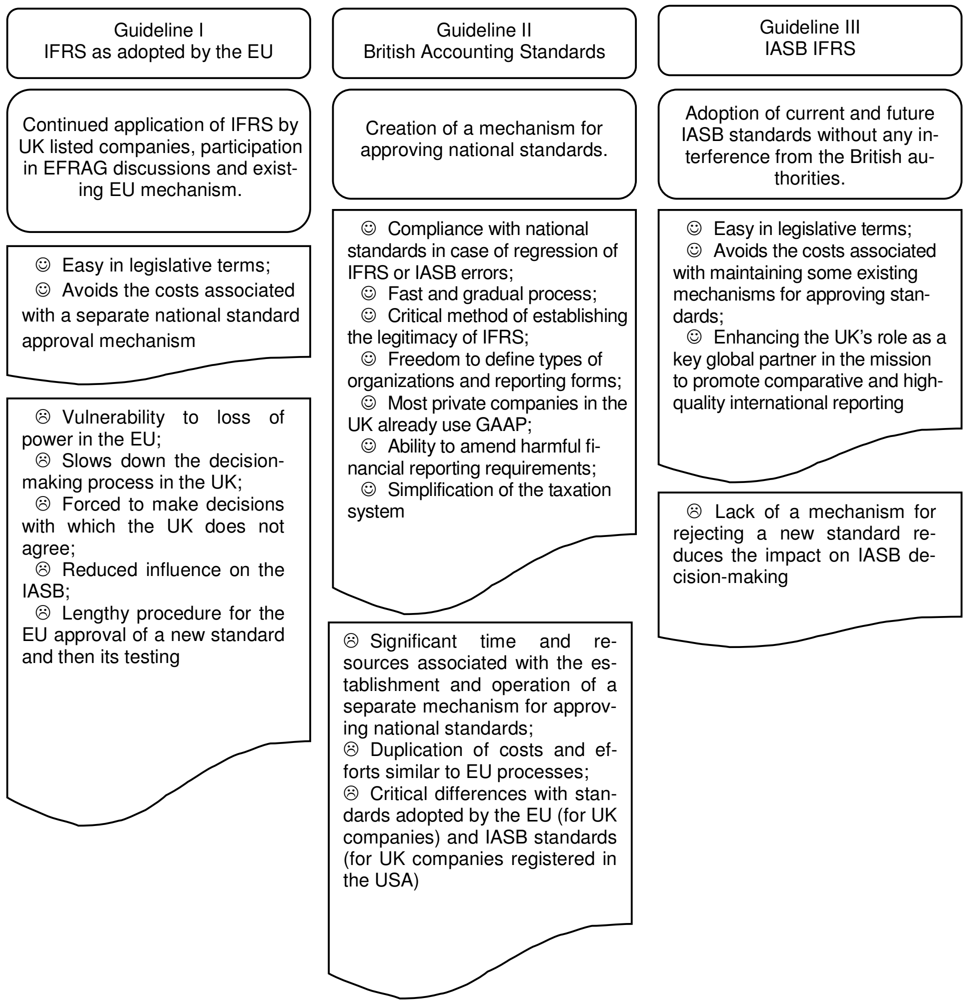
First guideline. EU decisions at the beginning of the change will continue to directly or indirectly affect the UK's economic interests. After all, in 2007, the United Kingdom allowed all companies (except charities) to choose either EU-regulated IFRS or IFRS regulated under the Companies Act 2006. In addition, in 2013, the new UK standards introduced significant changes to the European Accounting Directives and the Companies Act 2006 – FRS 102 Financial Reporting Standard (300 pages instead of 3000), making reporting requirements dependent on the size of the organization, and changing disclosures, valuation and recognition. Thus, in 2015, the European financial reporting system became closer to the British one.

However, if the UK uses its own IFRS endorsement mechanism (first guideline, Figure 1), it is likely that over time, the reports of UK companies seeking to be registered in the EU will not be considered sufficient to meet the objectives of the EU directives. The United Kingdom should therefore engage as closely as possible with other European stakeholders, as well as with EFRAG, in the first years after Brexit, possibly as an observer on the Technical Expert Group and/or the Advisory Group of IASB. The past practice of the EU and other IFRS jurisdictions, which it can draw on as a member of the IASB and a former EU member, may play an important role in this regard.

In addition, if the UK does not plan to stop actively participating in the EU capital markets after Brexit, the current criteria of the EU Directives should remain a priority in the country's legislation in the future (McGrath & Gourley, 2018). In addition, if this path is chosen (Fig. 1), the small difference in terminology between FRS 102 and the Companies Act 2006 should be eliminated after Brexit. To this end, in particular, the British government should engage the advice of ICAEW to minimize the risks of unintended consequences when balancing the relevant rules and laws with the FRS. This will help to avoid duplication and significantly simplify regulations.

Figure 1

Possible advantages and disadvantages of the post-Brexit guidelines for the application of British accounting standards



Thus, close harmonization between UK and EU legislation will reduce potential differences resulting from the adoption of IFRS, make the financial statements of European and UK companies equally transparent and comparable, and allow the EU and UK capital markets to function effectively after Brexit.

Second guideline. An important point in choosing this option is that some of the provisions of recent EU Directives, as reflected in the UK Companies Act 2006, were not supported by the public. Many small businesses have assessed the new requirements as harmful to UK financial reporting in practice, in particular the restrictions on disclosures for small companies introduced by EU Directive 2006/43 in 2013. Before Brexit, it was impossible to remove them, which increased costs for British companies.

Thus, the adoption of national standards in the UK will provide greater diversity in financial disclosures (information on directors' remuneration, corporate governance, environmental costs, labor remuneration, tax strategy and payments to governments), ensuring better transparency and comparability, especially with the parallel development of electronic (XBRL) and integrated reporting in line with the users' needs regarding 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 in the short term, fixing these European standards will still bring UK companies the first benefit from Brexit. The second advantage of Brexit concerns tax benefits for British companies – Directive 2011/96/EU and Directive 2003/49/EU will lose their direct effect. As a result, there will be no need to withhold tax from related companies from different EU countries. The provisions of these Directives will no longer be applicable to UK companies until the issue is resolved between the EU and the UK, which may either reduce tax rates on transactions between European and UK companies or be eliminate them altogether, for example, as under the national legislation of Cyprus and Hungary (on dividends), the Netherlands, Luxembourg, Sweden (on interest and royalties) (Kuznechikova, 2018).

However, given that UK law does not require tax deduction for dividend payments (except for mortgage investment funds), UK companies can only rely on existing UK double tax treaties for interest and royalties. In addition, the introduction of a parallel VAT system and new methods of obtaining VAT refunds from European tax authorities require special attention in tax matters. Obviously, having lost access to the European «single window» mechanisms (Kuznechikova, 2018), the UK will be forced to introduce import VAT for imports of goods from the EU, and for e-commerce, electronics, telecommunications and radio services – to register VAT payers in every country with a wide consumer base.

Therefore, after Brexit, if the first guideline for change is chosen (Fig. 1), the UK government should publicize its position on (non)interference in the new IFRS approval mechanism. As a rule, despite the need for resources and supervisory bodies, experience shows that government intervention does not promote high-quality financial reporting standards, and investor confidence in government-dependent decisions (with inherent lobbying by certain groups) can be significantly reduced.

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 the standard that is deemed legitimate. The Australian Parliament has the right to veto this law. However, in practice, there have been no changes to such standards, which indicates that the consideration was balanced. In Canada, on the other hand, the approval of IFRS is delegated to the Canadian Accounting Standards Board, which is completely independent of the government. As in Australia, it issues an exposure draft to discuss possible inconsistencies with Canadian organizations and notes that the standard is developed by the IASB. As a result, all international IASB standards are fully adopted as Canadian GAAP.

As noted in the SEC's working paper on the incorporation of IFRS for U.S. issuers, virtually all developed economies that have adopted IFRS have implemented some form of national standard-setting mechanism (ICAEW, n.d.-a). However, regardless of the differing views on the form of the new IFRS endorsement mechanism, it is clear that this change will have significant implications for future reporting in the UK and even for the application of IFRS internationally. Therefore, the choice of the guidelines shown in Figure 1 should be carefully considered.

Third guideline. Given that the United Kingdom has had a long history of influencing the development of IFRS, its accounting approaches have often made significant inroads both in Europe and internationally, from accounting for small businesses and the emergence of 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, post-Brexit there will be a question of how to maintain a strong British voice in the international debate on financial reporting. It is clear that the UK, having the opportunity to expand its influence, will try to become one of the world's largest capital markets, apart from the EU. Thus, the IASB standards, which are now increasingly viewed as a global reporting template for listed companies, may present a good opportunity for such an attempt and make the UK a more attractive market for investors from around the world.

ICAEW representatives also believe that the option of applying IFRS approved by the IASB should remain open under UK law to all companies, including subsidiaries. Meanwhile, the British Financial Reporting Council (FRC) called for a full transition to IFRS, claiming that there is a good reason to require all companies that solicit money from the public to remain subject to strict IFRS reporting (Financial Reporting Council, n.d.). This may indicate a preference for the adoption of the Canadian version of IFRS, but to properly analyze the guideline chosen by the United Kingdom for changes in the accounting and financial reporting system, it is necessary to examine the steps that have already been taken during the transition period.

After all, during this period, the UK government has been introducing the necessary statutory documents for the accounting and auditing sector, along with clarification letters from the FRC (Department of Business, Energy & Industrial Strategy, 2020), effective after December 31, 2020. The study allowed us to group the main provisions of the new British system of accounting, financial reporting and auditing after Brexit in the following table (Table 3).

Table 3

Regulation of accounting, financial reporting and auditing by the UK government after Brexit

Company type	**Regulation period:**	
	Transition (31.01.2020-31.12.2020)*	Post-transition (after 01.01.2021)**
– rules of accounting and financial reporting		
British companies (Companies Act 2006)	IFRS adopted by the EU IFRS adopted by the United Kingdom (UK GAAP)	IFRS adopted by the United Kingdom (UK GAAP) for financial periods*
Publicly listed companies in the UK	IFRS adopted by the EU (including the Transparency Directive 2004/109/EC and the Prospects Directive 2013/50/EU), even new and amended EU standards	IFRS adopted by the EU IFRS adopted by the United Kingdom (UK GAAP) with the requirement to declare the use of this option when making financial statements for the reporting period*
Public EES companies registered in the UK	IFRS adopted by the EU (including Transparency Directive 2004/109/EU and Directive 2013/50/EU)	IFRS as adopted by the EU (including the Transparency Directive and the Prospects Directive) = UK GAAP
Listed companies in the EU (Regulation 1606/2002)	IFRS adopted by the EU	IFRS adopted by the EU or IASB + Additional requirements for domestic purposes of a «third country» or EES country (set by the government)
British companies present in EES	international standards adopted by the EU = UK GAAP	international standards adopted by the EU ≠ UK GAAP
EES companies present in the UK (subsidiaries)	Exemption from preparation and presentation of reports + Preparation of a report on non-financial information and changes in accounting dates	Preparation of annual reports and submission to Companies House for the financial period beginning after December 31, 2020

Company type	**Regulation period:** Transition (31.01.2020-31.12.2020)*	Post-transition (after 01.01.2021)**
– rules of audit		
Banks, construction cooperatives, insurers or issuers of equity or debt securities admitted to the UK market	The Disclosure and Transparency Rules issued by the UK Financial Conduct Authority (FCA) and other rules issued by the UK government for the Audit Committee, and Audit Directive 2006/43/EC	1. UK companies are required to demand the appointment of a UK registered audit firm. 2. Professional auditors with SES qualifications must be registered in the UK. 3. Most EES auditors qualified in Ireland do not need to be registered in the UK.
Companies that are not EES members (including the UK) 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 competent EES authority is quite necessary (negotiations are underway). 2. Audit reports of EES companies must be signed by EES auditors.
EES enterprises (including subsidiaries) and UK (including parent companies)	No changes for EES auditors in the UK + Registration of individual EES auditors as state auditors in the United Kingdom + EES auditors for UK companies (including parent companies) are banned	1. Non-audit services (Article 5 of the EU Audit Regulation) are prohibited for all foreign companies in the UK (including subsidiaries), including banks, insurance companies, etc. 2. Auditors of British companies (including parent companies) are subject to a ban. 3. EES auditors for UK companies (including parent companies) are not subject to the ban. 4. The need to apply as a statutory auditor in each EES country in which the auditor intends to work.

Note*: Fiscal years start before the transition period but may end before or after the transition.

Note**: UK GAAP refers to new standards adopted after the transition period and approved by the Secretary of the Department of Business, Energy and Industrial Strategy of the United Kingdom and the UK Accounting Standards Board.

Source: compiled by the author using the data of Department of Business, Energy & Industrial Strategy (2020).

In particular, the government plans to make international standards known as «UK adopted» (similar to EU IFRS), and the UK will effectively become a «third country» to the EU. In addition, EU Regulation No. 2019/685 delegated the authority of the European Commission to approve and adopt IFRS to the UK Secretary of State, with further delegation of these functions to a new independent standard-setting body – the UK Endorsement Board (UKEB) (IAS Plus, 2019).

According to the regulations, the new UKEB will be a subsidiary of the FRC Board with a full-time chairman, part-time board members, and 12-15 employees. The FRC was subsequently replaced by a new body (ARGA), accountable to parliament, with new leadership and stronger legal powers. The ARGA is expected to provide more effective oversight of the Big Four audit firms and contribute to the development of IFRS. Sir Jon Thompson, former chief executive at HM Revenue and Customs (HMRC) and new head of ARGA noted: «…we're about to forge new alliances across the world…» (ICAEW, n.d.-b).

One of the most important differences between the FRC and ARGA is that the new regulator will have the power to investigate company CEOs, CFOs and all audit committee chairs, regardless of their qualifications. Previously, the FRC regulated only those with accounting qualifications.

John Boulton, technical strategy manager at ICAEW, said: «It is absolutely right that ARGA has this remit if it improves governance. Directors have a series of duties under the Companies Act and it is absolutely crucial that those are effectively carried out…» (ICAEW, n.d.-b). 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 thus the higher their responsibility when making management decisions. Therefore, each director, when reviewing the financial statements, will need to study the information disclosed in them in more detail.

Conclusions

In summary, even though business continuity and stability should take precedence over changes in UK law in the first few years after leaving the EU, the short term benefit of correcting these European standards will still bring UK companies a small advantage in dealing with post-Brexit changes. Thus, the mapping of the UK national standards will provide greater diversity in financial disclosure and tax benefits for UK companies in the post-Brexit period. The previous experience of the EU and other IFRS jurisdictions, which it can draw on as a member of the IASB and a former EU member, may play an important role in this regard.

The study confirms that the UK government is introducing the necessary statutory documents for the accounting and auditing sector, together with explanatory letters from the FRC, which came into force after December 31, 2020. The study of these documents helped to group the main provisions of the new British system of accounting, financial reporting and auditing after Brexit.

The findings show that the government will make international standards known as «UK adopted» (similar to EU IFRS) and the country will effectively become a «third country» to the EU. In addition, the replacement of the FRC with a new body (ARGA) accountable to Parliament 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.

Therefore, it is concluded that Brexit will have some positive consequences – the British government will have a roadmap for the adoption of IFRS in the UK after Brexit, similar to the Australian scenario. This means that the new Audit, Reporting and Governance Authority (ARGA), controlled by the British government, will strictly control the current and future development of IASB standards.

In the future, the status of IFRS in the UK after Brexit will depend on the decisions of the new board (ARGA) regarding cooperation with the IASB and EFRAG. The observed transition from EU IFRS is slow, as is the approval of a national accounting standards mechanism. Moreover, the new focus on future IFRS (IASB) shows that Brexit has had a significant impact on national (not just UK) and regional accounting, auditing and financial reporting.

The main contribution of this study is the discovery that the British government's post-Brexit task of harmonizing national accounting standards with IFRS, taking into account EU requirements, was successfully achieved after Brexit. However, the study of the accounting system in the UK after Brexit may be the subject of future research in the context of the impact on IFRS at the international level. In particular, the process of harmonizing them with American standards, as we agree with Hantrais (2019) that a longer period of research is needed to identify the origin of many social factors that explain the Brexit vote. In addition, the topic of studying the application of IFRS in Ukraine as a candidate for EU accession is gaining prominence.

References

Alfano, M., Dustmann, C., & Frattini, T. (2016). Immigration and the UK: Reflections after Brexit. *Centro Studi Luca d'Agliano Development Studies Working Paper*, *No. 402*. http://dx.doi.org/10.2139/ssrn.2900373

Armour, J. (2017). Brexit and financial services. *Oxford Review of Economic Policy (Brexit Special Issue)*. https://ssrn.com/abstract=2892679

Arnorsson, A., & Zoega, G. (2016). On the causes of Brexit. *CESifo Working Paper Series*, *No. 6056*. https://ssrn.com/abstract=2851396

Association of International Certified Professional Accountants. (2019). *AICPA business and industry economic outlook survey. Detailed survey results: 1Q 2019*. https://us.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/newsandpublications/downloadabledocuments/1q-2019-eos-slides.pdf

Bartels, L. (2016). *The UK's status in the WTO after Brexit*. http://dx.doi.org/10.2139/ssrn.2841747

Bodellini, M. (2017). The impact of Brexit on the UK alternative investment fund industry. *Law and Economics Yearly Review*. https://ssrn.com/ abstract=3689173

Boulhaga, M., Elbardan, H., & Elmassri, M. (2022). The effect of internal control and corporate social responsibility on conditional accounting conservatism: Evidence from France. *The Journal of Corporate Accounting & Finance*, *34*(2), 228-241. https://doi.org/10.1002/jcaf.22605

Bouvier, S. (2018, May). *Accounting matters: EU moves to review standards*. IPE Magazine. https://www.ipe.com/analysis/analysis/accounting-matters-eu-moves-to-review-standards/10024380.article

Böckli, P., Davies, P. L., Ferran, E., Ferrarini, G., Garrido G., J. M., Hopt, K. J., Opalski, A., Pietrancosta, A., Roth, M., Skog, R.R., Soltysinski, S., Winter, J. W., Winner, M., & Wymeersch, E. O. (2017). The consequences of Brexit for companies and company law. *University of Cambridge Faculty of Law Research Paper*, *No. 22/2017*. http://dx.doi.org/10.2139/ssrn.2926489

Colantone, I., & Stanig, P. (2016). Global competition and Brexit. *BAFFI CAREFIN Centre Research Paper*, *No. 2016-44*. http://dx.doi.org/ 10.2139/ssrn.2870313

Craig, P. P. (2016). Brexit: A drama in six acts. *Oxford Legal Studies Research Paper*, *No. 45/2016*. https://ssrn.com/abstract=2807975

Cumming, D. J., & Zahra, S. A. (2016). International business and entrepreneurship implications of Brexit. *British Journal of Management*, Forthcoming. from https://ssrn.com/abstract=2825271

Department of Business, Energy & Industrial Strategy. (2020, February). *Information of the transition period for auditors and firms*. https://www.frc.org.uk/ getattachment/0d9fcf2c-887d-438c-85e6-7d05ade895ab/AUDIT-IP-COMMUNICATION-2020-Final.pdf

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32004L0109

Directive 2006/43 / EU of the European Parliament and the Council on statutory audits of annual accounts and consolidated accounts, amending Council Directive 78/660 / EU and 83/349 / EU and repealing Council Directive 84/253 / EU. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32006L0043

Financial Reporting Council. (n.d.). *Endorsement of IAS*. Retrieved December 1, 2020, from https://web.archive.org/web/20210614212640/ https://www.frc.org.uk/ endorsement-of-ias

Hantrais, L. (2019). *What Brexit means for EU and UK social policy.* Bristol University Press; Policy Press. https://doi.org/10.2307/j.ctvbqs48t

Heald, D., & Wright, I. (2019). The UK's exit charge from the EU: Insights from modes of accounting. *Abacus*, *55*(3), 557-581. http://dx.doi.org/ 10.1111/abac.12166

Howley, P., & Waqas, M. (2020). National identity and Brexit. *Leeds University Business School Working Paper*, Forthcoming. http://dx.doi.org/10.2139/ ssrn.3464210

IAS Plus. (2019, Oct 01). *UK endorsement of IFRSs post EU-exit*. https://www.iasplus.com/en/news/2019/10/ifass-brexit

Inglehart, R. F., & Norris, P. (2016). Trump, Brexit, and the rise of populism: Economic have-nots and cultural backlash. *HKS Working Paper, No. RWP16-026*. http://dx.doi.org/10.2139/ssrn.2818659

Institute of Chartered Accountants in England and Wales. (n.d.-a). *Brexit: Implications for financial reporting*. Retrieved March 3, 2020, from https://www.icaew.com/technical/corporate-reporting/brexit-implications-for-financial-reporting

Institute of Chartered Accountants in England and Wales. (n.d.-b). *Will ARGA restore trust in audit?* Retrieved September 6, 2019, from https://www.icaew.com/technical/audit-and-assurance/inquiry-into-audit/commentary-on-audit-reviews/will-arga-restore-trust-in-audit

Kean, F. (2019, Aug 21). *Does ARGA (the new UK accounting regulator) spell trouble for directors?*. https://www.linkedin.com/pulse/does-arga-new-uk-accounting-regulator-spell-trouble-directors-kean/

Kuznechikova, O. (2018). Brexit consequences for international business structures [in Ukrainian]. *Bulletin of IFRS*, *7*. http://msfz.ligazakon.ua/ua/ magazine_article/FZ001584 [Ukrainian].

Lehmann, M., & Zetzsche, D. A. (2016). Brexit and the consequences for commercial and financial relations between the EU and the UK. *27 European Business Law Review*, 999–1002. http://dx.doi.org/10.2139/ssrn.2841333

McGrath, E., & Gourley, L. (2018). The impact of BREXIT on the application of IFRS in the UK. *Policy Pulse June 2018 compendium*, *4*. https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/brexit/compliance-and-regulation/ey-policy-pulse-june-2018-impact-of-brexit.pdf

Meyenburg, I. (2022). «Brexit Means Brexit!»: Investigating the production of social phenomena in political discourses. *Symbolic Interaction*, *45*(4), 570-595. https://doi.org/10.1002/symb.615

Nunez-Ferrer, J., & Rinaldi, D. (2016). The impact of Brexit on the EU budget: A non-catastrophic event. *CEPS Policy Brief*, *No. 347*. https://ssrn.com/ abstract=2859407

Oestriecher, K., & Beasley, M. (2018). The current environment and implications for audit planning. In K. Oestriecher & M. Beasley (Eds.), *Annual update for accountants and auditors* (pp. 6-1-6-21). https://doi.org/10.1002/9781119511427.ch6

Regulation EU No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32002R1606

Ringe, W. (2018). The irrelevance of Brexit for the European financial market. *European Business Organization Law Review, 19*, 1–34. https://doi.org/10.1007/s40804-018-0106-6

Schaefer, H.-B., & Kämmerer, J. (2020). At Brexit crossroads: Autonomy and growth as alternatives?. *Brexit: Legal and Economic Aspects of a Political Divorce, Forthcoming*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3744705

Seidler, L. J. (1967). International accounting – the ultimate theory course. *Accounting Review*, *42*(4), 775–81. https://www.jstor.org/stable/244174

Strobel, C. D. (2017). Some changes in international tax. *The Journal of Corporate Accounting & Finance*, *28*(3), 90-92. https://doi.org/10.1002/jcaf.22254

Trueblood, L. (2020). Brexit and two roles for referendums in the United Kingdom. In R. Albert & R. Stacey (Eds.), *The limits and legitimacy of referendums*. https://dx.doi.org/10.2139/ssrn.3701818

Wu, C. (2020). Brexit in the eyes of East: How will it reshape EU/UK trade relations with East Asia? *European Foreign Affairs Review*, *25*(3), 357-378. https://doi.org/10.54648/eerr2020028

Received: March 20, 2023.
Reviewed: March 28, 2023.
Accepted: April 22, 2023.