Impact of Brexit on Stakeholders

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**Abstract**

 This research proposal delves into the effects Brexit will cause the accounting profession, its policies and standard implementation. The relevance of this research is based on stakeholder theory, which emphasizes the importance of stakeholders for the sustainability and longevity of the business. So caring for individuals other than the shareholders of the company can amount to so much profit for the firm as well. The accounting profession in this research is taken as a stakeholder to the vents of Brexit. This is because the accounting profession among others will be diversely affected by the outcome of Britain leaving the European Union. This research proposal has collected the literature already written on this issue by industry professionals and examined them critically to support our hypothesis. Some work in terms of a questionnaire for the Big Four (Deloitte, PWC, KPMG, EY) has also been done to determine how Brexit would affect the accounting profession as a whole. The hope is that this research proposal highlights the future of accounting in Britain with the status of the third country in terms of the European Union.

**Impact of Brexit on Stakeholders**

**Introduction**

Since the start of the year 2016, Britain has been embroiled in a debate regarding a specific subject that has divided the country. This issue is known as Brexit, which is a short form for Britain leaving from Europe. Brexit, as already mentioned above, has left the country in shambles and its people divided on whether to stay or withdraw from the EU. On June 23, 2016, most of the country voted towards leaving the European Union. The composition of the voting in the different areas was such as that leave voters had 51.9% votes, whereas remain voters had 48.1% of votes (Becker et al., 2017). Now, due to Brexit significant institutions, businesses and professions have a high number of uncertainties regarding their survival in the immediate environment. One of the occupations and field that is majorly feeling the effect of Brexit is the accounting profession.

This study focuses on analyzing the effects Brexit will have on different stakeholders that have established themselves as a significant part of the economy of the country. So, an analysis of how the infrastructure and the modes of business will be affected after Brexit goes through is necessary as Britain was the financial and accounting hub of the European Union, due to major banks and professional accounting entitieswho have established offices in Britain. An example would be JP Morgan, which provides financial services to its clients such as financial modelling and portfolio management and many more. PWC and EY are reputable accounting firms that have offices in Britain.

So, an analysis of the changes they would have to suffer in the coming days is critical. The objective of this research proposal is to see how the accounting profession, in general, will be affected by the Brexit deal. This research proposal will look at the different aspects of the accounting profession that are needed for its regular operation and how its effective working and management will either suffer or get strengthened during the process of Brexit. This is the main achievement that needs to be attained by this research proposal to gain any source of validity for the work done.

So, the problem that is to be researched in this proposal is how tax and the taxing system would have to change and how much accounting professionals and institutions would have to adapt to adjust to the new policies that will be propelled forward. There is also a high chance that no new taxing plans will be brought about because tax and tax policies have not been the centre of discussion in the Brexit debates. Any further information regarding the tax and taxing policies would be found after Brexit finally goes through. Another critical question that is to be researched in this proposal is how Brexit is causing a flux in the financial environment of Britain and what the future of the general accounting standards, implementation and their evolution following the expected new environment.

**Stakeholder Theory**

 Stakeholder Theory stresses the importance of the interconnectedness of a business with its customers, suppliers, investors, employees and the community in general. This theory emphasizes that enterprises should not only work for the benefit of their shareholders but also their stakeholders (Jones et al., 2018). According to Richard Edward Freeman (2010), stakeholder management is an essential thing in the 21st century. He carries on by saying that it’s the executive’s task to create as much value as possible for the stakeholders (2010). This will help in maintaining the sustainability of the business while maintaining its current customer base and also have the opportunity to increase it over time. The importance of stakeholder theory for this research proposal is because the focus is on how the accounting profession, its policies and implementation of its standards would change as a result of Brexit. In this case, accounting has been taken as a stakeholder in the outcome of, and this outcome will determine how accounting as a profession will operate.

**Literature Review**

 The accounting sector and the financial service sectors are one of the most critical factors for the global interconnectedness of economies. This also makes them one of the most regulated and scrutinized organizations in any country. For the Accounting profession, there are established standards and practices under which operations are conducted. Mostly every country follows these established standards and practices while taking any action that is directly related to accounting. There has been extensive work and research been done on how accounting (as a profession) will be affected after Brexit gets approved and finally moves forward. Mostly the literature has been divided and focuses separately on the accounting profession as a whole, the taxing system and the implementation of accounting standards such as IFRS (International Financial Reporting Standards).

**The Accounting Profession**

 There is an increasing noise in the British community and its leaders who believe that the accountancy profession as a whole will be strengthened if Brexit is finalized. According to a study posted by the Institute of ACCA (2017)and AAT, who claims that around 47% of the MP's think that Brexit will have a positive influence on the accounting profession. They are basing this claim on the fact that as uncertainty will be on the rise regarding significant businesses and the investments of the people in them. Clients will require extra help with financial planning, forecasting of future events and managing their assets and liabilities in these turbulent times. In this way accounting jobs will be secured as more and more clients would come out of the woodwork that needs help but as there is a massive amount of European Union citizens still living and working in Britain. There future and jobs are uncertain as there were talks between the EU and Britain that decided to keep the already working professionals including accounting professionals of the two entities in either EU or Britain. This is also not uncertain because Theresa May has lost to get her Brexit plan passed in the House of Representatives. So, this attitude towards the people already working in these countries of the different nationalities might change and even force them to go back to their region of citizenship.

**Tax**

Any organization ever developed or a person who has ever earned and prepared statements for their work knows the value of charge and its importance. Tax is the portion of the income that the government takes to run public institutions and provides public services. According to a report published by PWC (2018), the tax would be majorly affected by the decision of either living in the European Union or separating from it. If Britain decides to leave the European Union and finally get a Brexit deal passed then major businesses would be hurt. According to the report, if a company decides to move its assets from Britain towards European Union, they would have to pay an exit charge as from Britain's perspective this movement of an asset would be seen as a disposal of an asset and any value increase since its purchase is subject to Britain tax. Another aspect of the report by PWC, suggests that Brexit would affect businesses accounting regarding income taxes. They link this notion with SIC 25, which states that if a controlling shareholder moves onto another country, a change in tax status will be seen. Those entities that are under European Union law but based in Britain will see this change in tax status, as Britain will no longer be part of the European Union after Brexit goes through. But using Brexit, The Corporate Review Team of the Financial Reporting Council of Britain can put pressure on making better disclosure mainly due to the uncertainty attached with Brexit. Their focus will be mostly on companies that are vague about their exposures.

**Accounting Standards (IFRS)**

 Accounting standards are the set of principles and procedures under which companies have to act regarding financial reporting. To make visible their economic activities throughout a specified period (either yearly or quarterly), companies have to take into consideration the applicability of different accounting standards that are related to the asset or liability they are reporting for. All companies who have businesses and workings in different countries comply by International Financial Reporting Standards. These reporting standards have been established by the International Accounting Standards Board (IASB). Now as Britain has decided to move forward with Brexit and leave the European Union, some changes will be seen in how these reporting standards are implemented. A report by ICAEW (2017), clearly states that in any case after Brexit goes through if Britain decides not to apply IFRS, it will decrease Britain as an attractive destination for investors. This point has validity as standards given by IASB are gaining increasing popularity in reporting for international companies. What this report fails to mention even if Britain decides not to implement new accounting standards, but there will be changes in how the old IFRS standards are implemented in the financial statements. If Brexit is triggered, it will most probably harm accounting principles such as impairments, valuations, disclosures and changes in company law. In the impairment test increased risk and uncertainty created by Brexit would have to be factored in. So impairment would have to be done by taking into account expected credit losses, and this can only be done by acquiring forward-looking information to assess if there is any rise in credit risk. Valuations of assets and liabilities will also be affected, as these valuations are done based on the fair market value of asset or liability. Increasing uncertainty in the market will cause a fluctuation in the fair value of the assets and liabilities resulting in valuation that is either higher or way lower compared to what it should be. As there will be uncertainty in the cost of assets, so the disclosures under IFRS 19 in the financial statements will be affected. Disclosures will also again be impacted when contracts will have to be disclosed. The terms of contracts will have to be reviewed to compensate for the increased uncertainty brought about by Brexit(EY, 2017). These reviews will mostly be focused towards termination clauses in response to change in contract duration (IFRS 15) and the lease term of any asset within the said contract (IFRS 16). When the final Brexit arrangements are, and Brexit goes through, the revision of the Companies Act would have to be done to show Britain's status as the third country to the EU. So any British company listed on the market of the European Union has to assure the authorities present in the area regarding their compliance with IFRS issued by the International Accounting Standards Board.

**Conceptual Framework:**

 The theoretical framework requires the researcher to organize his or her research based on different types of variables. These variables can affect the mode of the study and determine which way the research goes towards (Dennis, 2018). These variables are of two kinds either independent variable or a dependent variable. The independent variable is the basis for the change in the dependent variables activity and if there is any change like the independent variable. Their relationship determines that either the research will be quantitative (based on numbers or data) or qualitative (more focus on the literary work done before on the topic with minor inclusion of data).

 The question (Hypothesis) that is to be tested in this research proposal is firstly to determine how taxing policies and structure would have to change. The second would be how the implementation of International Financial Reporting Standards prescribed by the International Accounting Standards Board will have to change and evolve shortly. All these changes depend on the finalization of Brexit, which is the exit of Britain from the European Union. So as Britain will be leaving The European Union and becoming a separate third country, Britain will be considered as a dependent variable and the European Union will be considered as the independent variable. The reason for choosing these variables is because Britain for an extended period has lived under European Union laws and regulations even laws regarding the accounting profession. So Britain's future regarding the accounting profession, its taxing system and the implementation of the IFRS standards that it had already been using will be determined after the Brexit deal goes through.

Due to Brexit, there has been increasing uncertainty regarding the future of many business and professions. This is because London (Britain) was considered the financial hub of the European Union (Nightingale, 2018) because all significant economic and accounting firms conducted their businesses in Britain and the European Union through here. Foreign companies that were operating from Britain but had assets in the European Union and had to work under European law would be significantly affected. They would have to reconsider and reevaluate how they would have to value their assets because the valuation is done on the fair market value of the asset. Brexit is causing so much uncertainty in the market that it will be hard for companies to determine an accurate and fair value for their assets. They might have to undervalue their asset which will cause them a loss if they ever decide to resell that asset. This is only one of the several problems that will be seen when the implementation of IFRS standards will have to be done during Brexit and after it. To comply fully with these standards companies would have to vigilant and of the changing scenario around them. They would have to evolve their reporting framework to take into account for any risk that might affect the values of the accounting principles used and can further lead the company into any financial loss in their operations within Britain and the European Union,

 Another aspect of this would be when companies that want to move assets across the Britain and European Union border will face a new set of difficulties. This is because, before Brexit, companies within Britain and the European Union enjoyed the same privileges in terms of tax and its policies. When Britain does come out of the European Union and becomes a separate country, the taxing principles that managed it before will not apply and would have to be revised. It would be up to the British government to decide whether they would keep the old policies or invent their system. Also, another problem would arise when companies from both sides would want to move assets across the border between Britain and the European Union. They would face new difficulties in tax charges as a movement of assets from any side of the border would be seen as a disposal of an asset from the country where it was purchased and would apply a more substantial tax charge compared to when Britain was part of the European Union.

 All these concerns will be thoroughly researched based on both qualitative and quantitative factors. Most of the qualitative work has been done in the literature review which has reviewed the closest literature regarding this impending reality from credible sources. The sources used were from industry leaders of the accounting profession who have a high stake in how the coming days unfold and in recognizing the problems that will have derived how the future circumstances will affect everyone including individuals to big corporations.

**Methodology**

 The idea of Brexitturned into after the referendum that took place in Britain three years ago. Due to this, no research was done on Brexit while taking accounting as a stakeholder that has becomea significant concern at present. The future relationship between the European Union and Britain will affect the different stakeholders especially the accounting profession and implementation of its basic principles (Gamble, 2019). Due to this dilemma, this research has focused mostly on major international companies and industry leaders that currently have operations in both Britain and the European Union. The rest of this describes how the data was collected and how it is going to be used.

 The data would be collected from the reports presented by companies such as PWC, EY and other accounting firms that are currently operating in Britain. Their market value, values of their assets and liabilities before Brexit would be taken and compared with their values after it has become a reality. This research proposal’s primary focus is on the firms in Britain because it has been chosen as the dependent variable. So the effects of Britain leaving the European Union would be mostly seen on them.

It has been witnessed that there are some major companies like Deloitte, PWC, EY and KPMG that would be affected the most by the separation of Britain from European. To see the effect of Brexit on these companies, research is being for checking how employment and clientele, how they are going to value their assets and liabilities in terms of new taxing policies. Another major thing that would be analyzed is how they would implement IFRS standards while making a financial statement soon. Questionnaire for these companies is given below:

 The sample of data would be taken from 2016 onwards till 2019 for several companies. This data will be collected in the form of pool cross-sectional data. In this form of data collection, a time series is listed for each member in the data set in a crossectional manner. The data is then collected together to form a single data set. An example of this is listed in the appendices.

 The data collected will show how the companies in the data set are accounting for the uncertainty in the market that has been caused by Brexit. Their market value before and after for not just the company itself but their assets and liabilities will show us how they are adjusting the tax and how they will be showing the values for their assets after adjustment according to the international financial reporting standards.

**Limitation**

 There are certain limitations to doing a combination of qualitative and quantitative research. These limitations occur when the contextual significance of the data collected has not been taken into account. This limitation becomes evident when the selection is purposeful and only focused on the top leaders of the field the research is being done in. This research is showing such a limitation, but to decrease it, other participants have also been chosen to keep the data balanced.

 Another limitation that has occurred while preparing this research proposal is that the time is taken and cost associated with acquiring a complete set of numbers to make this research clear and précis was too high. While developing this research proposal there was not enough time and monetary support to get the full understanding of the situation. Nevertheless, all effort has been made to compile as much data as possible that is relevant to the research proposal.

**Conclusion**

 The main idea behind the research proposal was to identify the effects of Brexit on its stakeholders. More specifically the stakeholder in question in question would be the accounting profession itself, its policies and the implementation of its standards. This research proposal has given literature review that shows what can be expected of the outcome of Brexit on the accountancy firms and their profession. Also, some qualitative work under methodology has been done to support the arguments in the literature review. At the end limitations regarding contextual sensitivity and the cost regarding time and expense was also discussed.

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**Appendices**

Questionnaire Directed to the companies listed in the methodology:

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| --- | --- |
| Q1 | How has been the employment trend of new accounting professionals has been from 2016-2019 and what will be the trend once Brexit goes forward? |
| Q2 | How many clients have the companies lost or gained during the period in between 2016 to 2019 and what will be the volume of clients will the companies be expecting in the further years? |
| Q3 | Have the companies started considering adjusting for new tax considerations regarding any assets or liabilities of their own and their clients, that will emerge once Brexit goes through and Britain becomes a third country? |
| Q4 | What will be the implications of the uncertainty in the market have on the implementation of IFRS standards in preparation of their financial statements? |