

Invitation to Tender (ITT):

Scenarios Analysis research project

Provision of Research Services

Reference	FRC2021- 014 Scenarios Analysis research project
Date	January 2021

1. Background

The Financial Reporting Council sets the UK Corporate Governance and UK Stewardship Codes; sets UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality. The FRC works in the public interest. Our work is aimed at investors and others who rely on company reports, audit and high-quality risk management.

2. Project / Requirements

2.1. Summary and objectives

Scenario analysis is an important part of climate-related reporting, with the Taskforce on Climate-related Financial Disclosures (TCFD) having given it a core role in their 2017 Recommendations¹. In June 2020 the Climate Financial Risk Forum published a scenario analysis guide for the financial sector² and, most recently, in December 2020, the TCFD published extensive scenario analysis guidance for non-financial companies³.

The objective of this research is to learn more about the processes through which companies are producing their scenario analyses, and how these processes are linked to the outcomes. In doing this, the research will address the following four areas of enquiry:

1. *Process*: Which teams, departments and functions are involved in conducting the scenario analysis? How, and at which stage(s)?
2. *Approach*: What assumptions, models, approach(es) are used?
3. *Governance*: Which internal governance committees are involved in overseeing the process and approving the output?
4. *Outcomes*: How do the process, approach and governance of scenario analysis impact on (a) the way its findings are used internally by a company, and (b) the extent, and quality, of reporting of findings to external stakeholders?

Where possible the enquiry should focus on the use of scenario analysis in companies' climate-related reporting. However, given its relatively early stage of development in climate-related reporting, and the more established application of scenario analysis in other elements of strategic/directors' reports, the project will also use the latter as source material. This will enable the research to achieve a sufficiently broad sample of companies from which robust and relevant findings can be drawn.

¹ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

² <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-scenario-analysis-chapter.pdf>

³ https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf

2.2. Scope

Examples of the questions to be answered in each of the project's four areas of enquiry are presented in the table below. These are indicative only. *Bidders' proposals should include a more extensive list of questions, explaining the method(s) by which each is expected to be answered, the sources that would be used, and in which phase(s) of the project the relevant work would take place.*

Area of enquiry	Example questions
Process	Which departments/job functions are involved in scenario analysis, and at what seniority levels? What is the process? How are responsibilities allocated among those involved?
Approach	The number and range of scenarios considered? How many uncertainties are modelled in each? From where are the scenarios sourced (i.e. external models/scenarios ⁴ ; internally generated models/scenarios)? How is the work validated? If scenarios are generated internally, what method is used? How can the range of methods used by companies be categorised?
Governance	How does the company's governance structure support scenario analysis? What role is played by the company's Risk Committee (or equivalent)? What is the role of the board or senior management in the oversight of the scenario analysis results? What happens when findings are controversial or uncomfortable? Who decides what elements of the scenario analysis are reported in the Annual Report, or elsewhere?
Outcomes	How do scenario analysis outputs feed into business decision making? Do they lead to actions being taken? Are scenario analysis findings monetised, or otherwise quantified (e.g. risk percentages, ratings, etc)? Which parts of the process and findings are most/least often reported? Is the rationale for selection of certain scenarios/models explained?

⁴ For examples see the models and scenarios in the International Energy Agency's (IEA) [World Energy Model and Sustainable Development Scenario](#) or the [UK Prudential Regulation Authority's General Insurance Stress Test](#), both of which include scenarios incorporating the Paris Agreement climate targets.

2.3. Suggested approach

It is envisaged that the project will proceed broadly as indicated in the table below. However, we encourage bidders to suggest alternative approaches and innovations if they believe these would improve the project's efficiency or its outcomes.

Phase	Purpose
A	Population: Use published annual reports from financial year 2020 (available from March 2021 onwards) to identify the population of companies upon which the research will be based. The population should cover a range of sectors and sizes ⁵ , and companies with varying extents of scenario analysis in their reporting.
B	Questionnaire and 'deep-dive' participant recruitment: Use a questionnaire, potentially tailored to each company to increase relevance and the response rate, asking the research population high-level questions covering all four areas of enquiry. Use questionnaire responses to identify a suitable sample of companies willing to participate in the Phase C 'deep-dives' (see below). Bidders may also wish to suggest other means of recruiting Phase C participants.
C	Deep-dives: This phase will focus on a smaller number of companies to examine in greater depth the process, approach, and governance of scenario analysis, and the 'internal' outcomes (areas of enquiry 1, 2, 3, and 4a in section 2.1 above). This phase will employ interviews with multiple staff members from each company, and other appropriate methods of enquiry developed by the research contractor ⁶ .
D	External reporting: Examine the extent of scenario reporting in 2020/21 annual reports (area of enquiry 4b in section 2.1 above).
E	Write-up of final report.

Scenario analysis frequently involves commercially sensitive information, both as an input and output. The research contractor will need to assure companies of the confidentiality of any such information they may disclose while participating in the research. The research contractor may also need to design their research with some companies such that it can produce meaningful findings without the companies disclosing certain sensitive information. Getting agreement from companies to participate

⁵ See section 2.4 below on population and sampling

⁶ For areas of the research that are not commercially sensitive to the company concerned (e.g. process, governance), the deep-dives could, for example, also employ roundtables/workshops, potentially grouping those with similar job functions from different companies.

in the ‘deep-dives’ will depend on their confidence in such measures. Bidders’ proposals for this project should provide details of how they would address these matters.

Companies’ participation in this research will remain confidential to the research contractor. The FRC will not know which companies were invited, or which companies agreed/declined to take part. Information provided by companies, including via interviews, will be anonymised in all reporting of the research findings.

2.4. Target participants

The population this research will cover is FTSE 100 and FTSE 250 companies (i.e. the ‘FTSE 350’). However, we recognise that the use of scenario analysis is considerably more prevalent at FTSE 100 companies and, furthermore, that the extent of use is far greater in certain sectors.

We would anticipate approximately 40 companies responding to the questionnaire and 10-15 participating in the phase C deep-dives. Bidders should detail in their proposals how many companies they expect to recruit, and how many people per company their research design would address in phase C of the research (‘deep-dives’), within the budget and timeframe available. Given the current situation with the coronavirus we anticipate phase C being carried out using secure, tele-conferencing facilities.

2.5. Deliverables, milestones and high-level project timeline

The final report of this research project should include a detailed analytical narrative that addresses each area of enquiry set out in section 2.1., covering the research questions subsequently agreed (see timeline below). In doing this it should explain how the sample companies’ processes, approaches, governance and outcomes can be analytically classified, and what causal links there are between them. We would expect the research, and hence the report, to contribute to better understanding of companies’ key challenges in these areas, how they can practically improve their scenario analysis process and governance, and to highlight examples of good practice.

The report should explain the methods and sources used, including the criteria for categorising different extents of, and approaches to, scenario analysis and its governance. The main report should be accessible to a non-technical audience, with supporting technical matters explained in annexes. It should be of publishable quality; bidders should include in their costs the necessary work to create an accessible, downloadable report in their house-style, co-branded with the FRC⁷.

⁷ This requirement is not to be read as a commitment on the part of the FRC to publish the final report.

The project is expected to run from the start of March 2021 until the end of July 2021.

<u>Date</u>	<u>Deliverable / milestone</u>
01-03-2021	Kick-off meeting; agree detailed project timeline and methods for each phase
15-03-2021	Agree questions/topic guide for each project phase and area of enquiry
26-05-2021	Interim findings presentation
24-06-2021	Agree final report structure with FRC
09-07-2021	Draft Final Report to the FRC for comment
30-07-2021	Final Report to the FRC

2.6. Liaison arrangements

The FRC policy team should be updated on project progress and consulted on key decisions in the research design and operationalisation.

- Regular updates throughout the project (by conference call), including recruitment progress.
- The FRC to sign-off topic sets and questions for each area of enquiry.
- Preliminary findings presentation midway through the 'deep-dive' phase.
- Draft report and final report both to be signed-off.

2.7. Your tender response

Please submit all documents in a Microsoft Word compatible format (or Open Document format).

The proposal should be no more than 7 pages in total, excluding annexes, and include:

- A succinct summary of your proposal, including a detailed timeline and project plan.
- Example topics and questions for each of the four areas of enquiry, and for each relevant project phase. These should be of sufficient depth and breadth to demonstrate your team's understanding of the project and of scenario analysis processes, methods, and governance.
- Details of the proposed methods for the 'deep-dives' in Phase C, including how you would address the potential commercial-sensitivity concerns of companies participating.
- Sample size – how many companies, and how many people per company, will your research cover in phase C (within the budget and timeframe available).

- Details of which job functions in each company would be targeted for participation in phase C, and the rationale for doing so. You should explain whether you would approach senior leadership team members, and company board members.
- How you would successfully recruit the above participants, including what experience your organisation and team have of working with senior managers, and relevant technical specialists, in similar research contexts.
- Arrangements for managing this work and quality assuring outputs.
- A budget, including a breakdown of time and costs per activity, in line with the principal activities. If your proposal includes options, these should be costed separately.
- Your organisation's experience of similar projects and relevant research capability.
- Details of personnel to be involved including their role for this project and their relevant experience. Project team CVs should be contained in an annex, along with any additional information about your organisation that you think is relevant.

Bids should identify any real or perceived conflicts of interest.

2.8. Tender Evaluation

Bids will be assessed on the following basis:

- Demonstrable understanding of our project requirements and purpose.
- The suitability of your overall approach (including methodology and management).
- Example sets of topics and questions for each area of enquiry.
- Your plans for recruiting participants, the expected number of participants, and your proposed methods and design for the 'deep-dives'.
- Experience and knowledge of the proposed personnel (including working with FTSE350 companies at a senior level).
- Pricing / cost of your proposal.

3. Cost /Financials

- The tenderer should provide a fixed fee for the work exclusive of VAT however inclusive of all expenses. Tenderers should detail their cost in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless and except if the scope has materially changed from what is set out / agreed. Changes to the scope / cost must be mutually agreed.
- **The FRC does not anticipate tender bids over £50,000 excluding VAT**
- Should the FRC decide in future years to repeat this research in order to provide an over-time comparison, we would like the option of using the same research contractor. If you bid for this project you should please confirm your willingness to do this. If the FRC takes up this option, it will do so before the end of 2025 (and the total expenditure will be capped at no more than £175,000).

4. References

- The FRC reserves the right to take up references. You will be required to provide references within the Tender Response Document. References must be relevant to the FRC requirement and within the last five years.

5. Use of ITT & publication

Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media.

6. Questions & Clarifications

6.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

6.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to procurement@frc.org.uk in the following format.

Nature of query / clarification	Query / Clarification

6.3. The FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

6.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, the FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

6.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

7. Tender process timeline

DATE/TIME	ACTIVITY
26-01-2021	Publication of this Invitation to Tender
01-02-2021 5pm	Deadline to submit clarification questions
04-02-2021	The FRC to publish responses to clarification questions
17-02-2021 5pm	Deadline for tender submission to the FRC.
01-03-2021	Contract Start

8. Conduct

8.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.

8.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.

8.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.

8.4. The tenderer must not offer any incentive to any member of the FRC's staff for doing or refraining from doing any act in relation to the tender.

8.5. If the tenderer engages in any of the activities set out in this paragraph or if the FRC considers the tenderer's behaviour is in any way unethical the FRC reserves the right to disqualify the tenderer from the procurement.

8.6. The tenderer must represent and warrant that a conflict of interest check has been carried out and that check revealed no conflicts of interest.

8.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform the FRC and submit proposals to avoid such conflicts.

8.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

9. Due Diligence

9.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.

9.2. Neither the FRC, nor its representatives, employees, agents or advisers:

- makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the ITT and supporting documents; or
- Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

9.3. It is the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

9.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

10. Submitting a Tender

10.1. Tenderers must submit their tender response within the deadline to procurement@frc.org.uk

10.2. Where a Tender Response Template is provided, potential providers must align their tender response with that format.

10.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

11. Evaluation

The FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

12. Acceptance of Tender & Notification of Award

12.1. The FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

12.2. The FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. The FRC also reserves the right to award more than one contract to fulfil the requirement.

12.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

12.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

12.5. Nothing in the documentation provided by the FRC to the tenderer during this procurement or any communication between the tenderer and the FRC or the FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from the FRC.

13. Additional Information

- 13.1. Please use the attached Tender Response Document for your reply.
- 13.2. The Terms and Conditions that will apply to this proposed Agreement are attached. Suppliers should accept the T&C's with no material changes.