

Invitation to Tender

Research Project: ex-ante economic impact assessment of IASB Exposure Draft 2021/1 *Regulatory Assets and Regulatory Liabilities*

13 February 2023

1 Summary

1. The objective of the contract is to assist the staff of the UK Endorsement Board in its ex-ante impact analysis of IASB Exposure Draft (ED) 2021/1 *Regulatory Assets and Regulatory Liabilities*¹ (as subsequently amended and updated through ongoing IASB board deliberations up to the start date of the study) by supporting the UKEB Secretariat with economic expertise in specified areas. This will serve as an input to the assessment of whether the use of this ED is likely to have an adverse impact on the economy of the UK, including on economic growth.

2 Background to the project

The endorsement of international accounting standards

2. The Secretary of State for the Department of Business, Energy and Industrial Strategy (BEIS) (Secretary of State) delegated the functions relating to influencing, endorsing and adopting international accounting standards for application in the UK to the UKEB in May 2021².
3. The UKEB influences, endorses and adopts new or amended international accounting standards issued by the International Accounting Standards Board (IASB) for use by UK companies. The UKEB consults publicly with stakeholders that have an interest in financial reporting in the UK so that it can develop and

¹ The Exposure Draft can be found [here](#)

² [The International Accounting Standards \(Delegation of Functions\) \(EU Exit\) Regulations 2021 No 609](#)

represent evidence-based UK views with the aim of acting as the UK voice on IFRS financial reporting.

4. The legislation³ setting out the UKEB's functions requires that in making its adoption decision it assesses whether use of a standard is likely to be conducive to the UK long term public good. As part of the long-term public good assessment, SI 2019/685 requires an estimation of costs and benefits as well as an analysis of whether the use of a standard is likely to have an adverse effect on the economy of the UK, including on economic growth, before a standard is adopted for use in the UK.
5. The Secretary of State receives an annual report on the technical work undertaken by the UKEB in exercising those functions. The UK Financial Reporting Council (FRC) oversees the governance and adherence to the due processes set out in the UKEB's Due Process Handbook. It also provides operational support. The FRC does not have the power to direct the UKEB in relation to the determination of its programme of work or the outcome of its technical decision-making. For the avoidance of doubt, the FRC are undertaking this procurement on behalf of the UKEB.

The IASB project on rate-regulated activities

6. Economic rate-regulation, (occurring typically in utility providers), can have a significant effect on a company's long-term economic and financial performance. The International Accounting Standards Board's (the IASB) ED sets out a new accounting model to address this issue. Under the proposals a company subject to rate regulation with regulatory agreements that meet the scope criteria are required to recognise regulatory assets and regulatory liabilities to reflect portions of revenues that will be recognised in later periods as a result of rights/obligation arising from regulatory arrangements. The ED would affect the timing of revenue recognition, where an entity's total revenue recognised would align with the entity's "total allowed compensation" which is the amount the entity is permitted to charge its customers by the regulator. IFRS Standards, unlike some national GAAPs, do not permit the recognition of timing differences arising from such regulatory agreements.
7. The proposals are likely to impact industries typically subject to economic regulation, the utility and transport sectors in particular. However, the scope is not limited to companies that operate in a specific industry.⁴ All companies subject to rate-regulation will need to consider whether they are in scope because of the broadly drawn scope criteria.

³ [The International Accounting Standards and European Public Limited-Liability Company \(Amendment etc.\) \(EU Exit\) Regulations 2019 No 685](#)

⁴ See [EFRAG \(2021\)](#), paragraphs 2.1-2.8.

The UKEB endorsement and impact assessment work

8. When the IASB issues its standard on rate-regulated activities, the UKEB will consider it for endorsement and adoption in the UK. As part of that process, the UKEB will undertake an economic impact analysis to understand cost and benefits of adopting the standard as well the economic effects of the standard, drawing on various sources. A part of the evidence base to support that analysis by the UKEB, will be an external economic impact study, based on the proposals on the current IASB ED (as subsequently amended and updated through ongoing IASB board deliberations up to the start date of the study). The primary objective of the external study is to provide evidence and analysis to assist in developing the assessment of whether the use of the ED is likely to have an adverse impact on the economy of the UK, including on economic growth.

3 Project requirements

9. The project should provide the information and address the issues set out below in accordance with the priorities indicated.
10. The UKEB will provide the vendor with certain analyses for context/background. Other analyses are instead expected to be conducted in partnership with the vendor. Expected responsibilities (i.e. UKEB, vendor only, joint) will be explicitly mentioned in the ITT and will be subject to further discussion with shortlisted vendors.
11. The UKEB will organise a workshop at the UKEB premises with the appointed provider to help frame their delivery.

Project scope

Entities in scope

12. The UKEB will conduct an in-house assessment of the entities in scope, i.e. listed and unlisted companies applying IFRS in the rate-regulated sector in the UK. The UKEB anticipates that the following industries will be affected:
 - a) Water.
 - b) Energy:
 - i. Gas.
 - ii. Electricity.
 - c) National rail infrastructure.
 - d) Airport management (Gatwick and Heathrow) and air traffic control.

13. The analysis will focus on key indicators of size, such as number of companies, revenues, market capitalisation.
14. These results will be provided to the vendor for background.

Overview of regulatory agreements in the UK

15. The ED does not cover all types of price regulation; only “regulatory agreements”, as specifically defined by the IASB. The IASB specifies that, “a regulatory agreement ... determines the regulated rate in such a way that part of the total allowed compensation for goods or services supplied in a period is charged to customers in a different period (i.e. in a way that gives rise to differences in timing and, hence, to regulatory assets or regulatory liabilities).”⁵ In other words, the ED covers only regulation that gives rise to an enforceable right (obligation) to raise (lower) prices in the future.
16. The IASB has provided some examples of regulatory agreements that would lead to the recognition of regulatory assets/liabilities on page 6 of its “[Snapshot](#)”, which explains the ED. We invite the vendors to consult this document as a reference.
17. **Required information:** For the purpose of this study, the UKEB would like the vendor to:
 - a) deliver a general overview of the regulatory agreements in the UK and the main mechanisms through which regulatory agreements affect revenues, such as recovery of costs (be they operating costs or capital expenditure), incentive bonuses/penalty costs;
 - b) an overview of similarities and differences in the regulatory framework between industries; industry peculiarities should be identified; and
 - c) a high-level international comparison to ascertain whether the agreements that are prevalent in the UK generally differ from the ones that are prevalent in other jurisdictions/internationally.

We anticipate that **the UKEB and the vendor may work jointly** on this deliverable. This will be subject to discussion with the shortlisted vendors.

Data on investors actively specialising/investing in the UK rate-regulated industries

18. **Nice-to-have information:** The UKEB would like the vendor to provide an overview of specialist infrastructure investors focusing on UK companies (number and assets under management).

⁵ See [IASB Snapshot: Regulatory Assets and Regulatory Liabilities \(2021\)](#), page 5.

Accounting effects

19. The UKEB will conduct an in-house assessment of the accounting effects, including of the potential size of those effects/different scenarios arising. The analysis will be provided to the vendor for context/background.
20. **Required information:** We would like the vendor to identify ways in which economic conditions can affect the accounting.
 - a) For example, regulatory assets/liabilities are the result of a NPV calculation. As such, it will be impacted by interest rates.
 - b) Commodity prices can also affect input costs thus (depending on the agreement) giving rise to right/obligations that are recognised as assets/liabilities.
21. The vendor would need to provide a comprehensive overview of such potential effects. We anticipate this analysis may be conducted collaboratively with the UKEB Secretariat.

Economic effects

22. The vendor should perform an assessment of potential economic effects arising from the adoption of the standard in the UK, providing detail of how the changes triggered by the ED would affect companies. In their response, the vendor should clarify how they are planning to carry out the analyses listed below (methodology, techniques, data sources).
23. We expect the shortlisted vendors to provide detail in their response about the scope of these analyses in terms of industries covered, i.e. whether an analysis of the whole market would be feasible or whether it would be better to focus on given industries. The UKEB expects to discuss these details with shortlisted vendors.
24. The UKEB has already identified several channels that the vendor should investigate. These are listed below.
25. **Required information:** Enhanced transparency and comparability leading to:
 - a) Higher investment in companies in scope by national and international investors.
 - b) Lower cost of capital for companies.
 - c) Easier access to capital for companies (more capital, more sources).
 - d) Other effects to be identified.
26. **Required information:** Potential microeconomic effects on:

- a) Product offering.
- b) Pricing/rate regulation, including consumer protection.
- c) Competition.
- d) Capital expenditure of companies (e.g., infrastructure renewal/development).
- e) ESG investment/expenditure of company (e.g., in renewables and the green economy).
- f) Corporate governance: does the standard give the management incentive to behave differently because of added transparency comparability?
- g) M&A activity in the industry.
- h) Assess any potential adverse effect on IFRS unlisted companies? Would the standard incentivise companies to switch to UK GAAP?

27. **Required information:** Macroeconomic effects such as those on:

- a) Economic growth.
- b) Tax revenues.
- c) UK employment.
- d) Dividends.
- e) Other effects.

Counterfactual analysis

28. An important analysis to be performed is the status quo (counterfactual) analysis, i.e. an analysis of the potential economic effect of NOT adopting the standard in the UK. We anticipate this work may be conducted collaboratively with the UKEB Secretariat.

29. **Required information:** We would like the vendor to perform a counterfactual analysis **at a minimum** exploring the following channels:

- a) International comparability, i.e. comparability between entities subject to rate regulation in different jurisdictions.
- b) Reflection of financial statement of economic conditions.
- c) Infrastructure and other investment by industry players.

30. We anticipate this analysis may be conducted collaboratively with the UKEB Secretariat.

Other economic effects

31. We expect the vendor to identify and, to the extent possible, quantify any other potential impacts of implementing the ED on the UK economy.

4 Deliverables, milestones and project timing

32. The key deliverable is a written report summarising the results of the quantitative analyses and qualitative assessments listed above. The report will be co-branded with the UKEB.

Closing date for tenders

33. 11:59pm Monday 27 February 2023. Please submit to Procurement@frc.org.uk within the deadline.

Timelines

Tender published	13 February 2023
Deadline to raise tender queries	By 12.00noon 17 February 2023
FRC / UKEB deadline to respond to queries	20 February 2023 By close of play
Tender period closes	11:59pm Monday 27 February 2023
Contract awarded	On/ around 7 March 2023
Final report delivered	20 July 2023

34. Within this overall timing, key milestones are:
- a) Agreement of approach and methodology and resolution of any questions over scope – by 10 March 2023
 - b) Formal interim progress meeting – by 31 March 2023
 - c) Formal interim progress meeting – by 28 April 2023

- d) Delivery of first draft report – by 20 May 2023
 - e) Delivery of confidential near-final report by 20 June 2023
 - f) Delivery of final report – by 20 July 2023
35. The final report will be made public on the website of the Endorsement Board.

5 Liaison arrangements.

36. In addition to the above milestones, the successful supplier will be expected to work in close consultation with UKEB Secretariat team throughout. A schedule of regular progress updates and meetings (including face to face if possible but also video/conference calls, as appropriate) will be agreed between the team and the supplier.
37. An initial meeting will be required shortly after the contract is awarded.

6 Budget

38. The budget for this project is up to £50,000.

7 Your tender response

39. The proposal should be no more than 8 pages in total, excluding annexes, and include:
- a) A succinct summary of the proposal, including an estimated timeline of project milestones.
 - b) Details of the proposed approach. This should include, as appropriate, the techniques, methodology, and external data sources to be used, including your rationale for choosing them.
 - c) A demonstrable understanding of the rate-regulated sector, and an understanding of the role of financial reporting in driving economic behaviours.
 - d) A demonstrable understanding of accounting, with demonstrable knowledge of IFRS a plus.
 - e) Details of personnel to be involved including their role for this project and their relevant experience.

- f) Your organisation’s experience of similar projects and relevant research capability.
 - g) Arrangements for managing this work and quality assuring outputs, including how you would like to work with Endorsement Board staff during the project.
 - h) A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined above. If your proposal includes options, including additional deliverables, these should be costed separately where it makes sense to do so.
40. Project team CVs can be included in an annex, along with any additional information about your organisation that you think is relevant.

8 Tender evaluation

41. Bids should identify any real or perceived conflicts of interest. Bids will be assessed against the following principal criteria:
- a) evidence of understanding the brief – 20%;
 - b) suitability of approach – 30%;
 - c) experience in the area – 30%; and
 - d) cost – 20%.
42. Bids will be scored on your ability to meet our requirements using the scoring approach: -

Score	Criteria for awarding score
0	<p>Unacceptable</p> <p>Does not satisfy any part of the requirement. Does not comply with and/or insufficient information provided to demonstrate that the bidder has the ability, understanding, experience, skills, resource and quality measures required to provide the services, with little or no evidence to support the response.</p>
25	<p>Poor</p> <p>Satisfies only minor aspects of the requirement. Or can carry out some or all of the required services but not to a sufficient standard. Strong concerns over relevant ability, understanding, experience, skills, resource, and quality measures required to provide the services.</p>

Score	Criteria for awarding score
50	<p>Fair</p> <p>Satisfies part of the requirement only, not the full requirement. Or can carry out all required services but not to a sufficient standard. Minor Concerns over relevant ability, understanding, experience, skills, resource, and quality measures required to provide the services.</p>
75	<p>Good</p> <p>Satisfies the requirement, with minor additional benefits. Supplier has the relevant ability, understanding, experience, skills, resource and quality measures required to provide the services, but the supplier has also provided relevant innovative methodology, or relevant added value services which will directly enhance the service required, giving minor additional benefit to FRC / UKEB.</p>
100	<p>Excellent</p> <p>Satisfies the requirement, with major additional benefits. Supplier has the relevant ability, understanding, experience, skills, resource and quality measures required to provide the services, but the supplier has also provided relevant innovative methodology, or relevant added value services which will directly enhance the service required, giving major additional benefit to FRC/UKEB.</p>

Questions & Clarifications

43. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.
44. Tenderers may raise questions or seek clarification within the timeframe by sending questions to in the following format below to procurement@frc.org.uk

Nature of query / clarification	Query / Clarification

45. FRC / UKEB will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.
46. To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC/ UKEB will publish all its responses to questions raised by Tenderers on an anonymous basis.

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

9 Conduct

48. 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.
49. 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.
50. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
51. The tenderer must not offer any incentive to any member of FRC or UKEB's staff for doing or refraining from doing any act in relation to the tender.
52. If the tenderer engages in any of the activities set out in this paragraph or if FRC / UKEB considers the tenderer's behaviour is in any way unethical FRC / UKEB reserves the right to disqualify the tenderer from the procurement.
53. The tenderer represents and warrants that a conflicts of interest check has been carried out, and that check revealed no conflicts of interest.
54. 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/ UKEB and submit proposals to avoid such conflicts.
55. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC (nor UKEB) are 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.

10 Due Diligence

56. 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.
57. Neither FRC / UKEB, nor its representatives, employees, agents or advisers:
- a) makes any representation or warranty, express or implied, as to the accuracy;

- b) reasonableness or completeness of the ITT and supporting documents; or
 - c) 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.
58. 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.
59. 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.

11 Submitting a Tender

60. Tenderers must submit their tender response within the deadline to with Procurement@frc.org.uk
61. Where a Tender Response Template is provided, potential providers must align their tender response with that format.
62. 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.

12 Evaluation

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

13 Acceptance of Tender & Notification of Award

64. FRC on behalf of UKEB reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

65. FRC on behalf of UKEB 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. UKEB also reserves the right to award more than one contract to fulfil the requirement.
66. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.
67. 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.
68. Nothing in the documentation provided by FRC / UKEB to the tenderer during this procurement or any communication between the tenderer and FRC / UKEB or either organisation 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 FRC on behalf of UKEB.

14 Additional Information

69. Tenderers must not undertake any publicity activity regarding the procurement within any section of the media.
70. The FRC / UKEB reserves the right to take up references. You may be required to provide references in the Tender Response Document / upon request. References must be relevant to the FRC / UKEB requirement and in the last five years.
71. Please use the attached Tender Response Document for your reply.
72. The Terms and Conditions will apply to this proposed Agreement are contained in the Tender Response document and should be accepted with no material changes.