Department for Business, Innovation & Skills

Invitation to Tender

Contract Requirement	***To conduct necessary research into the metrics and models used to assess company and investment performance, further to recommendation 13 of the Kay Review of equity markets, and to prepare a report of the findings to be published by BIS.***
Deadline for bids to be received by BIS	**11:00 hrs on 8 July 2013**

Contents

Section 1 - Introduction

1.1 This Invitation to Tender ("ITT") has been prepared by the Department for Business, Innovation and Skills ("BIS") for the purpose of inviting proposals from your organisation and others for the provision of the goods/services described in the Specification at section 3 of this document.

1.2 In order to bid for this contract you are required to submit a Proposal explaining how you will meet BIS' requirements described in the Specification in section 3 of this ITT. Your Proposal should follow the format described and answer the specific questions in section 4 of this ITT. The tender process will be conducted in a manner that ensures tenders are evaluated fairly against weighted criteria set out in section 5 of this ITT. You must use the pricing schedule in section 6 to explain how you will charge for the work you do. You will need to prove that you have the type and amount of insurance cover described in section 7. You also need to complete and return the Statement of Non-Collusion and the Form of Tender in section 9.

Section 2 - Instructions to Tenderers

2.1 Please read the instructions on the tendering procedures carefully. Failure to comply with them or to return any of the required documents or information may invalidate your tender which must be returned by the date and time given below using the enclosed address label.

Questions about this ITT

2.2 You may submit, by no later than 17:00 hrs on **24 June** any queries that you have relating to this ITT. Please submit such queries **by post or email** to:

Lee Vasey
3 SPUR 2
1 Victoria Street
London SW1H 0ET
Lee.Vasey@bis.gsi.gov.uk

2.3 Any specific queries should clearly reference the appropriate paragraph in the documentation and, to the extent possible, should be aggregated rather than sent individually. As far as is reasonably possible, BIS will respond to all reasonable requests for clarification of any aspect of this ITT and supporting documents in accordance with the following paragraph, provided they are received before the above deadline. No queries received after the above deadline will be answered.

2.4 Answers to questions received by BIS will be circulated by email to all tenderers on or before 17:00 hrs on **28 June 2013**. All questions and their answers will be circulated to all bidders (without revealing the identity of the individual bidder that put forward a particular question).

Variant Bids

2.5 You are encouraged to be innovative in your thinking when preparing your bid and to provide any suggestions and solutions that may provide a more cost efficient and value for money solution. Any such proposal which alters the requirements of the specification must be in the form of a variant bid, must be clearly marked “variant bid”, and must be submitted at the same time as the fully compliant bid requested in this ITT.

Summary of procurement timetable

2.6 The following is a summary of the timetable that applies to this procurement. BIS reserves the right to alter this timetable by notice to tenderers.

Event	**Date**
Deadline for receipt by BIS of queries about ITT	24 June 2013
BIS circulates responses to queries by	28 June 2013
Deadline for receipt of tenders (11:00 hours)	8 July 2013

2.7 BIS intends to complete the first sift of bids, and notify candidates if they have been shortlisted for interview by 12 July 2013.

2.8 **Please indicate, in your proposal your availability for a face-to-face or telephone interview in the week commencing *15 July 2013.***

2.9 Following interviews with shortlisted candidates BIS expects to be able to select and notify successful and unsuccessful tenderers by the end of July 2013.

2.10 The Project Steering Panel will provide advice to BIS on evaluation of tenders.

2.11 Candidates will be notified if there are any delays to the timetable for evaluation of proposals.

Instructions for return of tenders

2.12 Please submit **two hard copies** of your tender, by post, in Microsoft Word format, no later than **11:00 hrs on 8 July 2013, to**:

Lee Vasey
3 SPUR 2
1 Victoria Street
London SW1H 0ET
Lee.Vasey@bis.gsi.gov.uk

2.13 Late tenders will not be considered unless BIS is satisfied that the delay was caused by reasons outside of your control.

2.14 Envelopes and packages used to return tenders must bear no reference to the tenderer by name; franking machines which automatically print your organisation's name should not be used. Tenders will be received up to the time and date stated. Those received before the due date will be retained unopened until then. It is your responsibility to ensure that your tender is delivered not later than the appointed time.

2.15 Following the selection of the preferred supplier BIS will provide unsuccessful tenderers with the reasons for its decision. Where applicable BIS will observe the procedure in paragraphs 32 and 32A of the Public Contracts Regulations 2006 concerning the information that must be provided to unsuccessful bidders and the observance of the standstill period.

Checklist of documents to be returned

2.16 You are required to return the following documents as part of your tender:

(a) your tender Proposal, this including the answers to the specific questions in section 4 of this ITT

(b) the Pricing Schedule in section 6

(c) copies of the insurance documents listed in section 7

(d) the completed and signed Statement of Non-Collusion in section 9

(e) the completed and signed Form of Tender also in section 9

Freedom of Information and Transparency

2.17 The Freedom of Information Act 2000 ("FOIA") and the Environmental Information Regulations 2004 ("EIR") apply to BIS. You should be aware of BIS' obligations and responsibilities under FOIA or EIR to disclose, on written request, recorded information held by BIS. Information provided by you in connection with this procurement exercise, or with any contract that may be awarded as a result of this exercise, may therefore have to be disclosed by BIS in response to such a request, unless BIS decides that one of the statutory exemptions under the FOIA or the exceptions in the EIR applies. If you wish to designate information supplied as part of this response as confidential, or if you believe that its disclosure would be prejudicial to any person's commercial interests, you must provide clear and specific detail as to the precise information involved. Such designation alone may not prevent disclosure if in BIS' reasonable opinion publication is required by applicable legislation or Government policy or where disclosure is required by the Information Commissioner or the First-tier Tribunal (Information Rights).

2.18 Additionally, the Government's transparency agenda requires that tender documents (including ITTs such as this) are published on a designated, publicly searchable web site which is called "Contracts Finder". The same applies to other tender documents issued by BIS (including the original advertisement and the pre-qualification questionnaire (if used)), and any contract entered into by BIS with its preferred supplier once the procurement is complete. By submitting a tender you agree that your participation in this procurement may be made public. The answers you give in this response will not be published on the transparency web site (but may fall to be disclosed under FOIA or EIR (see above)). Where tender documents issued by BIS or contracts with its suppliers fall to be disclosed BIS will redact them as it thinks necessary, having regard (inter alia) to the exemptions/exceptions in the FOIA or EIR.

Intellectual Property

2.19 All intellectual property rights in this ITT and all material provided by BIS to applicants in connection with this ITT are and shall remain the property of the Crown.

Warnings/Disclaimers

2.20 Offering an inducement of any kind in relation to obtaining this or any other contract with BIS will disqualify your tender from being considered and may constitute a criminal offence.

2.21 You must not:

- tell anyone else what your tender price is or will be, before the time limit for delivery of tenders;
- try to obtain any information about anyone else's tender or proposed tender before the time limit for delivery of tenders; or
- make any arrangements with another organisation about whether or not they should tender, or about their or your tender price.

2.22 Failure to comply with any of these conditions may disqualify your tender.

2.23 Nothing contained in this ITT or any other communication made between BIS or its representatives and any person shall constitute an agreement, contract or representation (except for the formal written contract between BIS and its preferred supplier). Receipt by the tenderer of this ITT does not imply the existence of a contract or commitment by or with BIS for any purpose and tenderers should note that this ITT may not result in the award of any business.

2.24 It is the responsibility of tenderers to obtain for themselves at their own expense all additional information necessary for the preparation of their response to this ITT. No claims of insufficient knowledge will be entertained.

2.25 The information contained in this ITT and the supporting documents and in any related written or oral communication is believed to be correct at the time of issue but BIS will not accept any liability for its accuracy, adequacy or completeness and no warranty is given as such. This exclusion does not extend to any fraudulent misrepresentation made by or on behalf of BIS.

2.26 BIS reserves the right to change any aspect of, or cease, the tender process at any time.

2.27 By issuing this ITT BIS is not bound in any way and does not have to accept the lowest or any tender.

2.28 You will not be entitled to claim from BIS any costs or expenses which you may incur in preparing your tender whether or not your tender is successful and regardless of whether a contract is awarded.

Tender Validity

2.29 Your tender should remain open for acceptance of a period of 90 days from the last date for receipt of tenders which expires at midnight on 6 October 2013. A tender valid for a shorter period may be rejected.

Consortia Bids

2.30 If you are bidding for this contract in association with another supplier you must explain the structure of your bid. Failure to do so may lead to your bid being disqualified. For example if you are bidding as a lead investigator you must explain how the other researchers involved with your team will support you, and take over responsibility for performing the contract in the event that for some reason you are unable to continue. If you are intending to bid as a consortium and to establish a new legal entity to perform the contract please give full details of how that entity will be constituted, including its legal status, who will own it and in what proportions. BIS may require cross guarantees to be provided by all members of the consortium.

Data Collection

2.31 Researchers will be expected to clear any data collection tools with the Department before engaging in field work and ensure that in all cases the respondent documentation and/or interviewer briefing notes clearly state that the data is being collected for and on behalf of the Department and that no reference is made, implied or otherwise, to the data being used solely by or available only to the contractor. The respondent documentation and/or interviewer shall ensure that the respondent clearly understands (before they give their consent to be interviewed) the purpose of the interview, that the information they provide will only be used for research purposes and, in the case of interviews (telephone or face-to-face), that they have the right to withdraw from the interview at any time.

Section 3 - The Specification

To conduct necessary research into the metrics and models used to assess company and investment performance, further to recommendation 13 of the Kay Review of equity markets, and to prepare a report of the findings to be published by BIS.

Background

Findings of the Kay Review:

3.1 In 2011, the Secretary of State for Business commissioned Professor John Kay to undertake an independent review to examine investment in UK equity markets and its impact on the long-term performance and governance of UK quoted companies. The final report of the Kay Review was published in July 2012[1], and the Government published a formal response in November 2012[2].

3.2 The Review's principal focus was to ask how well equity markets are achieving their core purposes: to enhance the performance of UK companies (by facilitating investment and enabling effective governance and decision making in support of long-term profitability and growth); and to enable investors to benefit from this corporate activity in the form of returns from equity investment.

3.3 Central to Professor Kay's thesis[3] were the conclusions that:

- The most important characteristic of a long-term investment strategy is that decisions are made on the basis of an understanding of the fundamental value of the economy rather than on expectations of short-term movements in share prices. This distinction between "investing" and "trading" is more relevant than the period for which particular shares are held.
- The theory of strong efficient markets makes no distinction between investing on the basis of fundamentals and short-term trading on market expectations, because it posits that prices will accurately reflect all relevant information. Recent episodes of asset mispricing in financial markets provide evidence that this is not the case. However, the theory continues to influence the choice of metrics and models used for assessing investment risk, selecting asset managers and monitoring investment performance, and judging company performance.

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[1] http://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf
[2] http://www.bis.gov.uk/assets/biscore/business-law/docs/e/12-1188-equity-markets-support-growth-response-to-kay-review
[3] **Annex A** to this specification sets out fully the recommendation 13, the principles and directions of the review in relation to metrics and models, together with the relevant extracts from the final report.

- In particular, the selection and monitoring of active asset managers is typically based on short-term relative performance against a benchmark. The shorter the timescale for judging asset manager performance, and the slower market prices are to respond to changes in the fundamental value of the company's securities, the greater the incentive for the asset manager to focus on the behaviour of other market participants rather than on understanding the underlying value of the business.
- Competition between asset managers on the basis of relative performance is inherently a zero sum game. Asset managers can only contribute to the performance of companies (and to overall returns to savers) through greater attention to the fundamental value of the assets in which they invest. Asset managers should therefore adopt investment approaches which achieve long-term returns by supporting and challenging corporate decisions in pursuit of long-term value. Asset holders should set mandates which focus managers on achieving absolute returns in line with beneficiaries long-term investment objectives, rather than short-term performance benchmarks.
- Kay highlights the growth of intermediation in the investment chain between companies and end investors, driven in part by a decline in trust and confidence, and noted that it has led to an increased potential for misaligned incentives and market failures arising from the presence of principal-agent relationships.
- Faced with an asymmetry of information or expertise, investors may place too great a reliance in a particular model or metric to judge the performance of a company or an investment portfolio. And agents may have incentives to promote the use of a particular metric or model, which prompts investment decisions in line with their interests rather than the principals'. Kay gives a number of examples including companies being managed to meet short-term earnings expectations, and agents whose financial reward comes from increasing the volume of transactions promoting the use of short-term performance measures.
- Kay identified a number of circumstances in which the use of metrics and models is driven by regulatory requirements. He recommended that regulators should avoid the implicit or explicit prescription of a specific model in valuation or risk assessment and instead encourage the exercise of informed judgment.
- The Kay Report recommended that the metrics and models used in the equity investment chain should give information directly relevant to the creation of long-term value in companies and good risk adjusted long-term returns to savers, and should increasingly be negotiated between investors and companies to ensure it is relevant to the specific company. In particular Professor Kay stressed the point that no single metric or model can provide a sure guide to long-term value in companies or equity portfolios. Professor Kay also noted that

information provided should not be so copious as to allow obfuscation and the hiding of data useful for assessing long run value through over provision.

3.4 On the basis of these findings, the Kay Report recommended that the Government and relevant regulators commission an independent review of metrics and models employed in the investment chain to highlight their uses and limitations.

Government Approach

3.5 In its response to the Kay Report, the Government acknowledged the importance of promoting a greater understanding of the uses and limitations of different metrics and models in the context of long-term investment approaches. However, it made clear that a further independent review, supported by Government officials would not be best placed to deliver this objective. The Government therefore committed to consider further how best to stimulate debate and economic analysis in this area.

3.6 We have now concluded that the best approach is to launch a competition for external research in this area as part of the Government's *Open Policy Making* initiative. The specification for this research project is set out below. We have invited a range of expert practitioners and academics to act as a steering panel to inform the research project, to advise the government as customer for this analysis, and promote engagement between relevant experts and the winning bidder.[4]

Research Scope

3.7 The Government's intention is that the scope of the research covers two areas. The project specification is therefore divided into two parts:

- **Part A** relates to the metrics and models used to assess the performance of companies by equity investors with long term horizons.
- **Part B** relates to those used to assess the performance of investment funds, in the context of designing an investment strategy to meet the needs of investors with long-term horizons.

3.8 The research is not expected to consider the use of particular metrics in the performance-related remuneration of either company executives or asset managers. Such questions are outside the scope of this project.

3.9 A key aim of this research is to create debate and behavioural change. We would therefore expect the preferred bidders to engage market participants, specialists, professional bodies and other stakeholders. This will also be an important aspect of the evidence gathering process and underpinning of the analysis. We encourage bidders to set out how they

[4] Details of confirmed members of the steering panel are provided at paragraph 3.16 below.

would approach achievement of the above objective, including any description of innovative approaches.

3.10 The Government invites bids from parties interested in conducting research in one or both areas. Where bidders wish to address both parts A and B of the research objectives they should also aim to compare and contrast the apparent issues identified within the two sections.

3.11 The Government encourages bidders to be innovative in their approach, considering how they might use a range of methods to best engage with relevant stakeholders and experts in order to obtain evidence and achieve the projects objectives. For example, bidders may wish to consider the use of case studies, interviews, surveys, workshops, literature reviews, economic analysis, etc

Project Objectives:

Part A of the project should:

i. Identify the variety of metrics and models commonly used to assess and forecast the performance of companies.

ii. Identify the main users of such metrics and models, the situations in which they use them, their varied levels of sophistication, and which types of investors place most value on which metrics and models.

iii. Provide an analysis of the uses and limitations of these metrics and models in the context of selecting and managing an equity portfolio with the objective of achieving long-term returns.

iv. Highlight in particular:

    a. the relevance of metrics and models to assessing company's fundamentals and their potential for long-term creation of value;

    b. how short-term market fluctuations can influence data produced by metrics and models, and vice versa;

    c. how different market conditions may impact on the uses and limitations of metrics and models;

    d. the ways in which they may be misunderstood, manipulated or misapplied;

    e. the approach used by investors to analysis of the data produced by models and metrics and the extent to which non-quantifiable measures of company performance can usefully influence investment decisions;

f. how the choice of appropriate metrics and models may vary according to the specific characteristics of the company, including size, structure, and the sector / markets in which it operates, providing case studies as appropriate, and considering the value of comparability across firms and industry sectors;

g. the impacts of using particular metrics and models on investor choices;

h. the impacts of using particular metrics and models on decisions by companies – for instance whether companies' efforts to maximise identified metrics can undermine the creation of long-term value.

v. Identify what factors drive the choice of metrics and models by long-term investors, in particular identifying:

a. the role of regulatory requirements;

b. the presence of misaligned incentives; and

c. the prominence with which particular metrics are presented in the data provided to investors.

vi. Report the findings of this analysis, in a way which will enable the Government to:

a. develop good practice guidance to improve understanding of the choice of metrics and models by long-term investors;

b. encourage wider debate and discussion on this issue;

c. inform possible future policy development relating to the regulation and operation of equity markets.

Part B of the project should:

i. Identify the variety of metrics and models commonly used to assess and forecast the performance of investment funds, and to assess risk in the formation of investment strategies, and to select asset managers;

ii. Identify the main users of such metrics and models, the situations in which they use them, their varied levels of sophistication, and which types of investors place most value on which metrics and models.

iii. Provide an assessment of the uses and limitations of these metrics and models, in particular for investors with long-term objectives.

iv. Highlight in particular:

a. the relevance of metrics and models to assessing the performance of investment funds, and risks to that performance, over the long-term;

b. how short-term market fluctuations can influence data produced by metrics and models, and vice versa;

c. how different market conditions may impact on the uses and limitations of metrics and models;

d. the ways in which they may be misunderstood, manipulated, or misapplied;

e. the approach used by investors to analysis of the data produced by models and metrics and the extent to which non-quantifiable measures of investment performance and risk can usefully influence investment decisions;

f. how the choice of appropriate metrics and models may vary according to the specific characteristics of the fund or asset class – providing case studies as appropriate, and considering the value of comparability across different funds and asset classes;

g. the impact of using metrics and models on investor choices;

h. the impact of using metrics and models on the decisions by asset management firms competing for investment business - for instance whether efforts to deliver against short-term relative performance metrics can undermine the creation of long-term value.

v. Identify what factors drive the choice of metrics and models by long-term investors, in particular identifying:

a. the role of regulatory requirements;

b. the presence of misaligned incentives; and

c. the prominence with which particular metrics are presented in the data provided to investors.

vi. Report the findings of this analysis, in a way which will enable the Government to:

a. develop good practice guidance to improve understanding of the choice of metrics and models by long-term investors;

b. encourage wider debate and discussion on this issue;

c. inform possible future policy development relating to the regulation and operation of equity markets.

Project Timings and Outputs:

3.12 We expect the project to start in August 2013. The required outputs of the project are:

- The full text of the draft and final reports submitted electronically in Word format;
- A summary of findings in around 1500 words submitted electronically in Word format; and
- A presentation of findings to the Steering Group and other colleagues from BIS.

3.13 A draft final report will be required by the 28 February 2014.

3.14 An agreed final report will be required by 1 April 2014.

3.15 Tenderers should confirm that they can meet this timetable and include a proposed work plan, including key milestones in their proposal (see Section 4).

Project Oversight

3.16 The project will be overseen by a Steering Panel made up of BIS officials and the following invited expert practitioners and academics:

- Sarah Breeden – Head of Markets, Sectors and Interlinkages Division, Financial Stability, Bank of England;
- Professor Alexander Ljungqvist – Ira Rennert Chair of Finance and Entrepreneurship, Stern Business School, New York University;
- Anne Marden – Managing Director, JP Morgan Asset Management;
- Saker Nusseibeh – CEO and Head of Investment, Hermes Fund Managers;
- Anne Richards – Chief Investment Officer and Executive Director, Aberdeen Asset Management;
- John Thanassoulis – Lecturer, Department of Economics, Oxford University.

3.17 Successful bidders will be expected to attend a number of meetings with the Project Steering Panel between August 2013 and February 2014, and take on board the Panel's directions and comments. These will include a meeting early in the course of the project, a meeting to present interim findings later in 2013, and a meeting in March 2014 to review the draft final report. A full schedule of meetings will be finalised when the contract is awarded, however BIS reserves the right to arrange additional meetings as needed during the course of the project.

Annex A:

Relevant Kay Review Principles, Directions and Recommendations

Principles

- At each stage of the equity investment chain, reporting of performance should be clear, relevant, timely, related closely to the needs of users and directed to the creation of long-term value in the companies in which savers' funds are invested.
- Metrics and models used in the equity investment chain should give information directly relevant to the creation of long-term value in companies and good risk adjusted long-term returns to savers.
- Risk in the equity investment chain is the failure of companies to meet the reasonable expectations of their stakeholders or the failure of investments to meet the reasonable expectations of savers.

Directions

It follows from the above principles that:

- Relevance to investors should be the principal criterion in determining reporting obligations
- Asset managers should increasingly negotiate, individually and collectively, the provision of the information they need to make good long-term decisions
- Noise in information– the frequent reporting of data irrelevant to long-term value creation – should be reduced
- Regulators, information providers and all involved in the equity investment chain should recognise that no single metric or model can provide a sure guide to long-term value in companies or equity portfolios
- The use of measures which are not related to long-term value creation should be discouraged by regulators and users
- Risk is not short-term volatility of return, or tracking error relative to an index benchmark, and the use of measures and models which rely on such metrics should be discouraged

Recommendation 13:

The Government and relevant regulators should commission an independent review of metrics and models employed in the investment chain to highlight their uses and limitations.

Recommendation 14:

Regulators should avoid the implicit or explicit prescription of a specific model in valuation or risk assessment and instead encourage the exercise of informed judgment.

Extracts from the Kay Report:

Executive Summary:

x. At the same time, there has been an explosion of intermediation in equity investment, driven both by a desire for greater professionalism and efficiency and by a decline in trust and confidence in the investment chain. The growth of intermediation has led to increased costs for investors, an increased potential for misaligned incentives and a tendency to view market effectiveness through the eyes of intermediaries rather than companies or end investors.

xi. Bad policy and bad decisions often have their origins in bad ideas. We question the exaggerated faith which market commentators place in the efficient market hypothesis, arguing that the theory represents a poor basis for either regulation or investment. Regulatory philosophy influenced by the efficient market hypothesis has placed undue reliance on information disclosure as a response to divergences in knowledge and incentives across the equity investment chain. This approach has led to the provision of large quantities of data, much of which is of little value to users. Such copious data provision may drive damaging short-term decisions by investors, aggravated by well-documented cognitive biases such as excessive optimism, loss aversion and anchoring.

xii. Asset managers – specialist investment intermediaries – have become the dominant players in the investment chain, as individual shareholding has declined and pension funds and insurers have responded to incentives (including demographic changes and regulation) to reduce their investments in equities. Asset managers typically play a key role in exercising the attributes of share ownership most relevant to company decision making: the right to vote and the right to buy or sell a given share.

xiii. We focus on the important, though not clear-cut, distinction among asset managers between those who "invest" on the basis of their understanding of the fundamental value of the company and those who "trade" based on their expectations of likely short term movements in share price. While some trading is necessary to assist the provision of liquidity to investors, current levels of trading activity exceed those necessary to support the core purposes of equity markets.

xiv. The appointment and monitoring of active asset managers is too often based on short-term relative performance. The shorter the timescale for judging asset manager performance, and the slower market prices are to respond to changes in the fundamental value of the company's securities, the greater the incentive for the asset manager to focus on the behaviour of other market participants rather than on understanding the underlying value of the business.

xv. But competition between asset managers on the basis of relative performance is inherently a zero sum game. The asset management industry can benefit its customers – savers – taken as a whole, only to the extent that its activities improve the performance of investee companies. This conflict between the imperatives of the business model of asset managers, and the interests of UK business and those who invest in it, is at the heart of our analysis of the problem of short-termism.

Chapter 10: (Paragraphs 10.22-10.30)
Issues with metrics and models in the equity investment chain:

10.22 Several respondents to the Review discussed issues around 'mark to market' accounting. The problems of mark to market accounting are evident when, as in most businesses, the assets critical to the value of the company are idiosyncratic: but it may also be true when there is a market in the relevant assets. The fundamental value of a tranche of a securitised product based on mortgages with a potential life of twenty years can be ascertained only over many years: short-term changes in the price of such securities were often the result, not of better information about the underlying assets, but the consequence of changing opinions of the price at which packages of mortgages (whose fundamental value was very difficult to ascertain) could be sold to other purchasers.

10.23 If the market prices of assets represent partly or wholly the beliefs of market participants about what other market participants do or will believe and if these market participants have little or no knowledge of the capacity of these assets to generate earnings or cash flow, then 'marking to market' conveys little or no information relevant to long-term decision making by companies or by asset managers, and gives little indication of the long-term value generated for savers. We do not believe that the process of marking to market, or otherwise implementing accounting standards, either does or should relieve those preparing financial statements from providing decision useful information.

10.24 Nor do we believe that it is necessarily true that the ability to price an investment fund on a daily basis necessarily gives either useful information to savers, or an assurance of fairness as between different savers. These things are likely to be true only if daily changing market prices are reflective of genuine changes in the fundamental value of the underlying assets. If fluctuations in reported prices are mostly the result of noise rather than shifts in fundamental value, frequent re-pricing creates inequity rather than fairness among beneficiaries.

10.25 This latter issue takes on greater importance with the growth of defined contribution pension schemes, in which individuals will invest and disinvest at dates and times over which they have no control. It is obviously necessary to establish values at which such transactions can take place. But if that is interpreted as an obligation to ascertain daily values, the obligation discourages investment in underlying assets that are not constantly re-priced. We doubt if a requirement for frequent re-pricing is in the long-run interests of savers.

10.26 We do not believe there are easy solutions to the problems posed for both mark to market accounting and fund valuation by noisy markets which are characterised by price volatility generated by changes in market sentiment and expectations which have little connection to changes in fundamental value. But the priority given to regular price information focuses attention on market fluctuations at the expense of fundamental value and creates biases in the investment decisions of both companies and savers. It is therefore important for users of accounts to be aware of these limitations.

10.27 Other flawed metrics give rise to similar biases. Total shareholder return over short to medium periods is typically dominated by changes in market assessments of fundamental value rather than changes in fundamental value itself. Ratios such as earnings per share and return on equity can be influenced by reducing the denominator rather than by increasing the numerator, so that these metrics can show positive returns even if the underlying value of the business is only maintained or even reduced.

10.28 Corporate executives judged by reference to such metrics have benefited from the opportunities these flawed measures of performance create, reducing the number of outstanding shares through buybacks, or by increasing the return on equity through increasing leverage or taking corporate assets off balance sheet. Measures of growth in earnings will be misleading if no allowance is made for capital reinvested in the business. As a result, financial actions may represent short-term decisions which add nothing to the enterprise value of the company even in the short-term and are likely to diminish its value in the long run.

10.29 Many widely used models raise similar issues of relevance. Risk models commonly employed in asset management firms measure risk by trading error relative to an index benchmark. Asset allocation models and insurance company solvency models commonly measure risk by reference to one year volatility, a measure which reflects the amount of market noise generated by trading activity rather than the underlying riskiness of the asset. Risk models used in the regulation of the investment process should focus on risk as perceived by savers, not risk as experienced by market participants. These risks are the failure of their investments to meet their reasonable long-term expectations over the time horizon for which they wish to invest.

10.30 Many metrics and models, like some of those described above, are simply flawed measures which should not be employed. Other metrics and models are useful when deployed in conjunction with a range of other measures. No single metric or model can provide an adequate picture of the long-term performance of a company or asset manager. This point is central to any discussion of mandates and remuneration structures.

Section 4 – Format of Tender Proposals / Questions for bidders

Format of Proposals

4.1 Please respond in full to each of the questions for bidders set out below to allow BIS to make an informed selection of the most appropriate solution. You should repeat the question in your Proposal and then include your answer.

4.2 Please reply to all the questions even if you have previously provided this information. This is to ensure that BIS can compare each of the options and the suppliers in a fair, like-for-like and reasonable manner. If a question is similar to a question included elsewhere in the questionnaire, you should repeat your response where relevant and expand upon it where necessary.

4.3 Please indicate clearly whether you are bidding for Parts A and B of the project specification or both parts.

4.4 Please outline costs as requested in section 6 below, providing a breakdown of the costs of conducting part A and part B of the research as appropriate.

4.5 Please also ensure that you indicate in your bid if you are reliant on any third parties for any aspects of fulfilling the project as specified, or if this is a consortia bid (see paragraph 2.25 above). In such cases you should provide full details of subcontractors and partners, the nature of the relationship and the intended balance of work to be completed, and copies of quality assurance arrangements operating with subcontractors.

4.6 Please submit your Proposal:

- written in English;
- in hard copy only - where possible printed on recycled paper containing at least 80% post-consumer waste and printed double-sided;

4.7 Please number every page sequentially in the main body of your Proposal and include the date and title of your document on each page of the main body.

4.8 Any additional pre-existing material which may expand upon your Proposal should be included as appendices with cross-references to this material in the main body of your Proposal.

4.9 While promotional material may be included or referred to in your Proposal, you are asked not to include it in substitution of responding fully to all questions.

4.10 Please indicate your availability for a face-to-face or telephone interview in the week commencing *15 July 2013*.

Questions for bidders:

I. ***Objectives and Approach:*** How will you meet the objectives of parts A and B (where appropriate) of the project specification?

II. ***Methodology:*** What is your proposed methodology? The department is looking for innovative proposals for addressing the research questions posed.

III. ***Experience / Expertise:*** What relevant experience/technical expertise do you have of conducting research studies of this nature and/or relating to this subject, or using relevant data sources?

IV. ***Stakeholder Engagement:*** How will you engage with relevant stakeholders in order to inform your research project and construct a robust evidence base? What assurance can you give that you will be able to obtain information of sufficient quality given the commercial sensitivities which exist in this area?

V. ***Survey work:*** If you intend to conduct surveys or focus groups, what would be the scale and who would the likely interviewees/attendees be? (Please note data collection requirements in paragraph 2.26).

VI. ***Staffing:*** Who will conduct research, write up the report and perform a peer review? Please include details of all personnel who would be working on the project, details of relevant work experience, and the specific roles and proportion of the work that will be assigned to each of them.

VII. ***Work plan:*** What is your proposed work plan, including key milestones? Please confirm that you will be able to produce a draft final report by 28 February 2014, and an agreed final report by 1 April 2014.

VIII. ***Conflicts of interest:*** What conflicts of interest may arise and how will you address these?

IX. ***Risk identification:*** What are the key risks to delivering the project and what contingencies will be put in place to deal with them?

X. ***Project / Risk management:*** How will you manage the project to mitigate these risks and ensure it is delivered in terms of quality, timeliness and cost?

Note: A risk is any factor that may delay, disrupt or prevent the full achievement of a project objective. These might include staffing, resource constraints, technical constraints, data access, timing, management and operational issues. For each identified risk, you should:

- assess its likelihood (high, medium or low);
- assess its possible impact on the project objectives (high, medium or low);
- identify appropriate actions to mitigate or eliminate each risk or its impact.

Section 5 - Evaluation Criteria and Weightings

5.1 Proposals will be evaluated by attaching a score to:

- the quality of the proposal overall against the following criteria:
  - overall understanding of the work required and the policy context;
  - cost;
  - value for money;
  - ability to deliver both Parts A and B of the project; and
- the responses to the questions for bidders listed in Section 4 above.

5.2 Scores will be awarded between 0 and 5, as follows:

0 = Unacceptable
1 = Unsatisfactory - below requirement
2 = Weak - well below requirement
3 = Mostly meets the requirement
4 = Good – completely meets the standard with moderate levels of assurance
5 = Outstanding – completely meets the standard with high levels of assurance

5.3 Weightings are given to each of the criteria and questions that are scored. Your total score will be determined by the aggregate of the scores for each question once multiplied by the applicable weighting.

Criteria:	**Weighting**
Overall understanding of the work required / policy context	2
Cost	2
Value for Money	2
Ability to deliver both Parts A and B of the project	1
Questions:	
I. ***Objectives and Approach:*** How will you meet the objectives of parts A and B (where appropriate) of the project specification?	2
II. ***Methodology:*** What is your proposed methodology? The department is looking for innovative proposals for addressing the research questions posed.	2
III. ***Experience / Expertise:*** What relevant experience/technical expertise do you have of conducting research studies of this nature and/or relating to this subject, or using relevant data sources?	2
IV. ***Stakeholder Engagement:*** How will you engage with relevant stakeholders in order to inform your research project and construct a robust evidence base? What assurance can you give that you will be able to obtain information of sufficient quality given the commercial sensitivities which exist in this area?	2

Criteria:	Weighting
V. ***Survey work:*** If you intend to conduct surveys or focus groups, what would be the scale and who would the likely interviewees/attendees be? (Please note data collection requirements in paragraph 2.26).	2
VI. ***Staffing:*** Who will conduct research, write up the report and perform a peer review? Please include details of all personnel who would be working on the project, details of relevant work experience, and the specific roles and proportion of the work that will be assigned to each of them.	1
VII. ***Work plan:*** What is your proposed work plan, including key milestones? Please confirm that you will be able to produce a draft final report by 28 February 2014, and an agreed final report by 1 April 2014.	1
VIII. ***Conflicts of interest:*** What conflicts of interest may arise and how will you address these?	1
IX. ***Risk identification:*** What are the key risks to delivering the project and what contingencies will be put in place to deal with them?	2
X. ***Project / Risk management:*** How will you manage the project to mitigate these risks and ensure it is delivered in terms of quality, timeliness and cost?	2

Section 6 - Pricing Schedule

6.1 All pricing should be in pound sterling (£GBP). If applicable please convert your currency into UK sterling using the rate published by the European Central Bank on the date you submit your tender.

Summary of Costs

6.2 Please provide a summary of costs for each part of the project specification above, in the following format:

Part A	£
Part B	£
Total	**£**

Cost Breakdown:

6.3 For each Part of the project specification covered in your Proposal, you should then break down costs as follows:

- Project Management / Planning
- Fieldwork - where more then one type of research methodology is proposed costs should be shown separately if possible eg: focus groups; interviews; surveys; postal research; desk research.
- Analysis;
- Administration, including stationery and communications;
- Travel and subsistence; and
- Any other costs (clearly described).

VAT:

6.4 Costs should be quoted **exclusive of output VAT.** Please confirm this in your pricing schedule, and indicate if the project will attract output VAT and at what rate.

6.5 If your proposal includes costs for sub-contractors these costs must be identified and shown **inclusive** of any VAT they will charge you.

Section 7 – Evidence of Insurance

7.1 Please enclose documentary evidence to show that you have the following types and amounts of insurance cover. This should be a copy of the relevant policy together with proof of payment of the current years' premium.

- Employers Liability Cover – minimum cover £5 million

- Public Liability Insurance Cover – minimum cover £2 million per claim

- Professional Indemnity Insurance – minimum cover £2 million for claims arising from a single event or series of related events in a single calendar year.

Section 8 - Details of the contract that BIS intends to award and the terms and conditions it will incorporate

8.1 The contract that BIS wishes to let following this procurement is intended to begin in August **2013** and last until April **2014**.

8.2 The contract will incorporate BIS' standard terms and conditions of contract, a copy of which is available at:

https://www.gov.uk/government/organisations/department-for-business-innovation-skills/about/procurement

Section 9 – Statement of non collusion and form of tender

Statement of non collusion

To

The Department for Business, Innovation and Skills, 1 Victoria Street, London, SW1H 0ET

1. We recognise that the essence of competitive tendering is that BIS will receive a bona fide competitive tender from all persons tendering. We therefore certify that this is a bona fide tender and that we have not fixed or adjusted the amount of the tender or our rates and prices included therein by or in accordance with any agreement or arrangement with any other person.

2. We also certify that we have not done and undertake not to do at any time before the hour and date specified for the return of this tender any of the following acts:

(a) communicate to any person other than BIS the amount or approximate amount of our proposed tender, except where the disclosure, in confidence, of the approximate amount is necessary to obtain any insurance premium quotation required for the preparation of the tender;

(b) enter into any agreement or arrangement with any other person that he shall refrain for submitting a tender or as to the amount included in the tender;

(c) offer or pay or give or agree to pay or give any sum of money, inducement or valuable consideration directly or indirectly to any person doing or having done or causing or having caused to be done, in relation to any other actual or proposed tender for the contract any act, omission or thing of the kind described above.

3. In this certificate, the word “person” shall include any person, body or association, corporate or unincorporated; and “any agreement or arrangement” includes any such information, formal or informal, whether legally binding or not.

…………………………………………………………………………………….
Signature (duly authorised on behalf of the Tenderer)

…………………………………………………………………………………….
Print name

…………………………………………………………………………………….
Bursar or other duly authorised officer for and on behalf of Tenderer

…………………………………………………………………………………….
Date

Form of Tender

Contract to conduct necessary research into the metrics and models used to assess company and investment performance, further to recommendation 13 of the Kay Review of equity market, and to prepare a report of the findings to be published by BIS.

To

The Department for Business, Innovation and Skills, 1 Victoria Street, London, SW1H 0ET

1. Having considered the invitation to tender and all accompanying documents (including without limitation, the terms and conditions of contract and the Specification) we confirm that we are fully satisfied as to our experience and ability to deliver the goods/services in all respects in accordance with the requirements of this invitation to tender.

2. We hereby tender and undertake to provide and complete all the goods/services required to be performed in accordance with the terms and conditions of contract and the Specification for the amount set out in the Pricing Schedule.

3. We agree that any insertion by us of any conditions qualifying this tender or any unauthorised alteration to any of the terms and conditions of contract made by us may result in the rejection of this tender.

4. We agree that this tender shall remain open to be accepted by BIS for 90 days from the last date for the receipt of tenders.

5. We understand that if we are a subsidiary (within the meaning of section 1159 of (and schedule 6 to) the Companies Act 2006) if requested by BIS we may be required to secure a Deed of Guarantee in favour of BIS from our holding company or ultimate holding company, as determined by BIS in their discretion.

6. We understand that BIS is not bound to accept the lowest or any tender it may receive.

7. We certify that this is a bona fide tender.

…………………………………………………………………………….......
Signature (duly authorised on behalf of the tenderer)

………………………………………………………………………………
Print name

……..………………………………………………………………………
Bursar or other duly authorised officer for and on behalf of Tenderer

………………………………………………………………………………
Date