

**Bank of England**

Digital Securities Sandbox  
(DSS)

Gate 1 Webinar



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# What will the Gate 1 webinar cover?

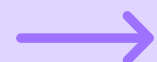
- Overview of the Digital Securities Sandbox (DSS)
- How do firms apply to enter the DSS?
- Walkthrough of the Gate 1 application form
- How will regulators handle applications
- Q&A

Further information on the DSS can be found on the dedicated Bank website - <https://www.bankofengland.co.uk/financial-stability/digital-securities-sandbox>

# DSS Overview



# Digital Securities Sandbox: rationale



Industry expressed a view in HMT July 2023 consultation that legislative framework for CSDs had not been designed with use of DLT in mind, and that changes would be needed to remove barriers and / or provide modifications.



FSMA 2023 gave HMT powers to create FMI sandboxes through secondary legislation and to confer powers onto Bank and FCA to operate and supervise FMI Sandboxes.



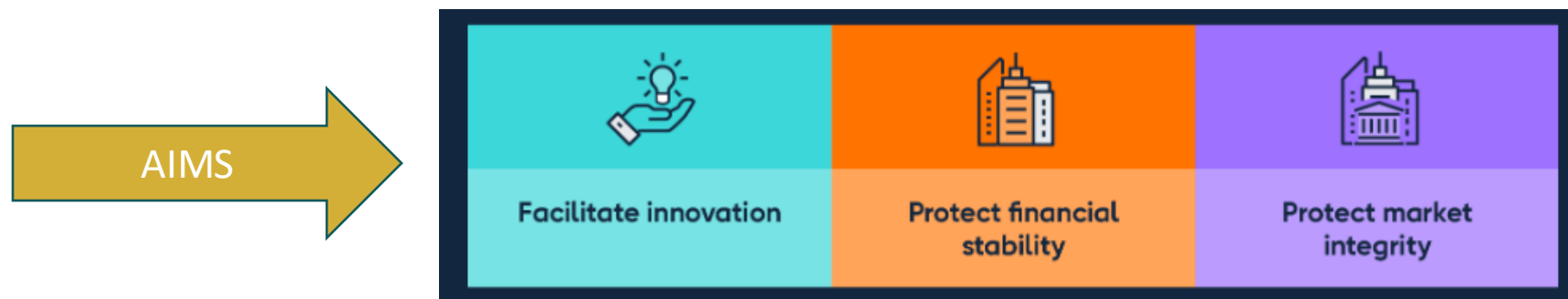
The objective is for activity in DSS to enable HMT, working with Bank and FCA, to determine how UK settlement legislation may be permanently amended in future to accommodate DLT and other approaches.

# Digital Securities Sandbox (DSS) – purpose and aims



## Purpose:

- Allow firms to use developing technology, such as distributed ledger technology (DLT) – in the issuance, trading and settlement of securities such as shares and bonds. Firms can use new business models that combine these activities in a hybrid entity.
- Participants will be subject to modified requirements aimed at removing existing regulatory barriers or obstacles to accommodate the use of new technology and business models.
- Provide a glidepath for participants to move through the DSS to operating outside under a possible new permanent regime, mitigating the risk of a regulatory cliff edge.
- The Bank is operating the DSS in conjunction with the FCA as regulators of trading venues. Firms operating DSDs in the Sandbox will not be held to the same standards as a CSD, and in exchange will be limited in the amount of activity they can undertake to mitigate against excess financial stability risk.



# What have we published?



On the 30<sup>th</sup> September, the Bank and FCA published a number of documents alongside opening the DSS for applications:

- [Bank and FCA joint approach to the DSS](#) (Policy Statement)
- [Guidance on the operation of the DSS](#) for firms
- [Bank's finalised Gate 2 Rules](#) instrument

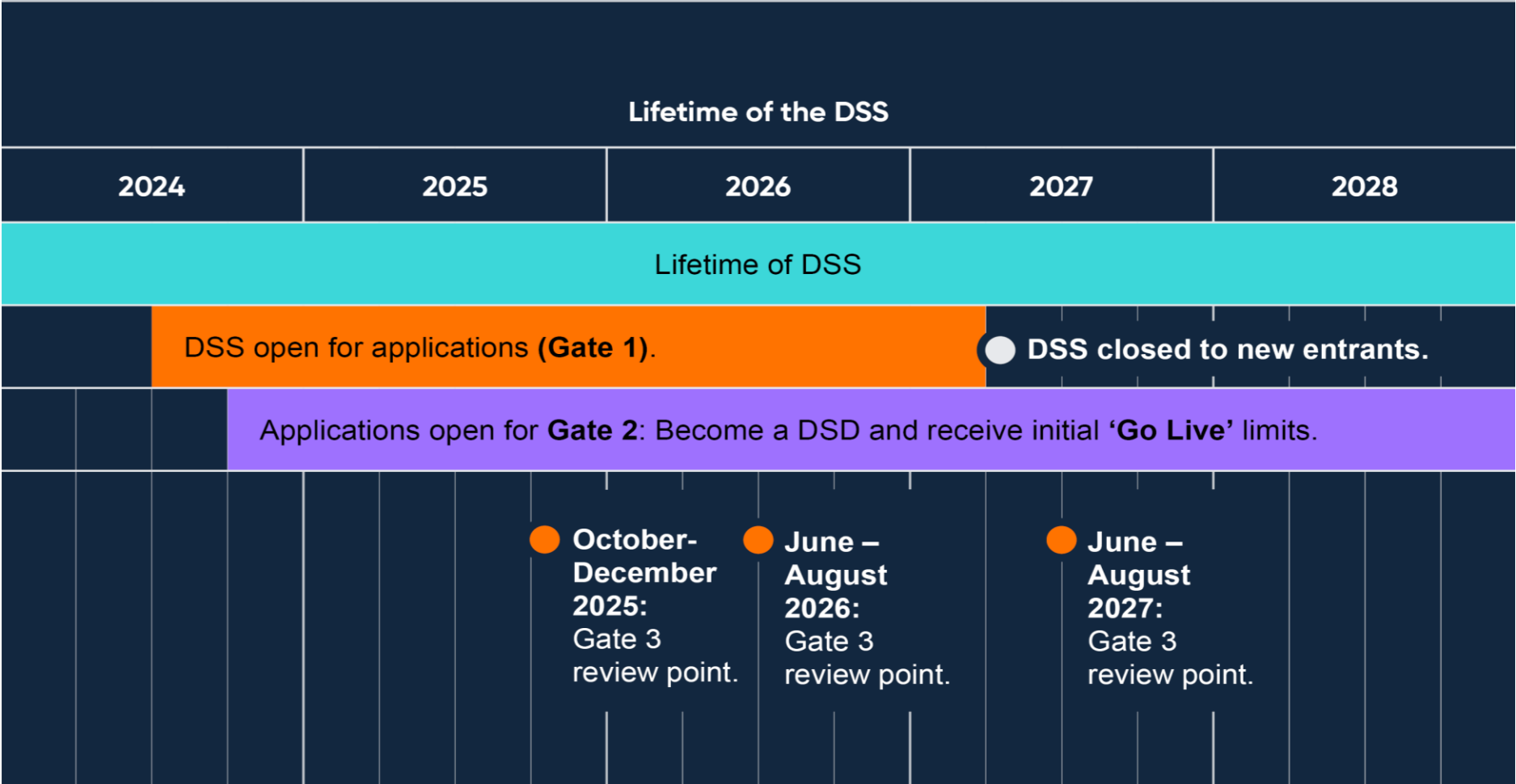
# Pathway through the DSS

## Stages and gates of the DSS

Stage	Purpose	Legal designation
Initial application	Identify firms eligible to join the DSS	None
<b>Gate 1</b>		
Testing (no live activity)	Preparing to go live and engagement with regulators to operate a trading venue or to be a DSD	Sandbox entrant
<b>Gate 2</b>		
Go live	Ability to carry out live business under initial limits	DSD/authorised operator of trading venue
<b>Gate 3</b>		
Scaling	Scaling the business, with a glidepath to full authorisation for DSDs.	DSD/authorised operator of trading venue
<b>Gate 4</b>		
Possible new permanent regime	Full authorisation to operate outside the DSS for DSDs.	CSD/new category of FMI



# Indicative timeline of journey through the DSS



# DSS - FMI activities and instruments



FMI activities	FMI Sandbox Instruments
<ul style="list-style-type: none"><li>• Operating a trading venue</li><li>• Core DSD activities:<ul style="list-style-type: none"><li>○ Notary</li><li>○ Settlement</li><li>○ Maintenance</li></ul></li><li>• Ancillary FMI activities</li></ul>	<ul style="list-style-type: none"><li>• Transferable securities (e.g. equities and bonds);</li><li>• money market instruments;</li><li>• units in collective investment undertakings (fund units); and</li><li>• emissions allowances.</li></ul>
<ul style="list-style-type: none"><li>• Any other activities must adhere to existing regulatory frameworks</li></ul>	<p><b>Out of scope:</b></p> <ul style="list-style-type: none"><li>• Derivatives requiring settlement at a securities depository</li><li>• Other assets not covered by the RAO including unbacked cryptoassets</li></ul>

*DSS assets can be used in wider financial market activities, including in securities financing transactions, or as collateral.*

# Gate 1 eligibility criteria



If applicants meet these criteria, they will be admitted to the Sandbox and be legally approved as a **'Sandbox Entrant'**



# Who should apply?

- Any firm that meets the eligibility criteria, regardless of existing relationship with regulators or pre-existing authorisations
- We only expect applications from the firms operating the FMI, not the technology providers or other 3rd parties providing services
- Firms with business plans where CSD requirements are too burdensome to enter the market, or firms who want to test novel use cases within the regulatory perimeter (an example would be tokenisation of money market funds)

# The Gate 1 application process



## How do you apply?

- Please **use this application form on the FCA website to apply.**  
(<https://www.fca.org.uk/firms/innovation/digital-securities-sandbox>)
- Supporting notes for applicants are also available on the FCA website.  
(<https://www.fca.org.uk/publication/information-sheets/dss-applicant-supporting-notes.pdf>)
- This section of the webinar will provide an overview of the application form, and the information that regulators expect applicant firms to provide.

# Section 1 – Firm details

Firm Reference Number (FRN)

Name of applicant firm and CEO

Companies House number (if applicable), type 'none' if you do not have a number.

Legal Entity Identifier (LEI) (if applicable). If the applicant has multiple relevant LEIs, please include all but identify the LEI for the entity applying. Add 'none' if you do not have one.

**1d. Do you have a person (or persons) carrying out a senior management function who will be based in the UK? If so, please provide details of their name(s) and senior management function(s). If applicable, please also provide their current or previous Individual Reference Number(s) (IRN).**

	Name	Senior Management Function(s)	IRN
Person 1	<input type="text"/>	<input type="text"/>	<input type="text"/>
Person 2	<input type="text"/>	<input type="text"/>	<input type="text"/>
Person 3	<input type="text"/>	<input type="text"/>	<input type="text"/>

- Contact details for the application
- Is firm registered with the FCA or the Bank already?
- Firm registration details:
  - Firm Reference Number at FCA
  - Companies House details
  - LEI
- Senior management function persons

## Section 2 – Business Model

- CSD-type activities
- Ancillary activities
- Trading venue
- Other activities

### 2a. Which type of business model do you wish to undertake in the DSS

Select the DSD functions you wish to provide:

- Notary
- Maintenance
- Settlement

**2b. Please set out any ancillary activities that you wish to provide solely for the purposes of enabling one or more of the above functions.**

**2c. If you also wish to operate a trading venue, which type of venue do you wish to operate:**

- Multilateral Trading Facility (MTF)
- Organised Trading Facility (OTF)
- Regulated Market (RM)

**2d. In addition to the FMI activities above, are there any other activities that you wish to undertake in connection with the DSS to which you require the DSS Regulations to apply?**



## Section 2 – Business Model

- Financial instruments

**2f. What financial instruments and in which currency denominations do you propose to include within the scope of your business model?**

*If you are planning to introduce different types of financial instruments at different stages in your business plan, please make clear which will be included in the earliest stages of DSS activity.*

The following financial instruments are examples of what could be issued and traded in the DSS:

- equities;
- corporate and government bonds;
- money market instruments such as commercial paper and certificates of deposits;
- units in collective investment undertakings (fund units); and
- emissions allowances.

## Section 2 – Business Model

- 3<sup>rd</sup> party services/outsourcing

**2h. Do you intend for any other firms to provide services critical to the proposed business model? (For example, technology providers, banking, or custodian services). If so, please provide the names of these firms and state where they are established.**

**2i. Does the applicant intend to outsource any other services?**

Yes

No

- Is the proposal active under a different regulatory regime?

**2j. Is your proposal a new initiative or is it already in operation in another jurisdiction or under any other regulatory initiative?**

## Section 2 – Business Model

- Growth projections **2k. What is the projected growth of the business – both in terms of the volumes and values of financial instruments, over the course of being in the DSS?**
- Technology **2l. Please describe any developing technologies you propose to use to deliver the business model. (For example, if you intend to use DLT, please provide a brief description of the technology to be used, including whether it is public/private, permissioned/permissionless, any verification protocols and the expected distribution of roles and responsibilities).**  
**2m. Have you or others already executed a proof of concept of the proposed technology?**
- Settlement asset **2n. Which settlement asset do you intend to use on the payment leg? Do you intend to utilise the services of a third party? For example, please explain if you are intending to use central or commercial bank money.**

## Section 3 – Reasons for applying

- Legislative barriers

**3a. Which legislative or regulatory barriers or obstacles prevent you from undertaking your optimal business model outside the DSS?**

- How will modified DSS framework enable activity

**3b. With regard to the barriers or obstacles explained above, how will the modified framework of the DSS allow you to undertake your optimal business model?**

- Other regulatory modifications required

**3c. Are there further regulatory modifications necessary for the optimal operation of the proposed business model, beyond those set out in the DSS framework?**

# Post Gate 1 application



## What to expect after submitting a Gate 1 application



- Applicant firms will be contacted to request the application fee (£10,000)
- Once we have receipt of payment of the initial application fee then we will begin to process your application
- Regulators will review the DSS application against the Gate 1 eligibility criteria
- Follow up with the applicant firm if the regulator requires more information
- Regulators accept or reject the application

## Applying for Gate 2

- The Bank's website will be updated shortly with information on the Gate 2 application process, including the documents applicants are required to submit
- In reviewing the documents, we will be focussed on the following risk areas:
  - **Adhering to DSS limits** – limits are our main mitigant to risks to financial stability
  - **Mitigation of cyber contagion** – given potential for cyber threats spreading to the financial eco-system due to weaknesses in cyber security capabilities
  - **Asset protection** – ensuring that assets can be recovered in the event of a system failure or cyber attack.
  - **Credible wind-down plans** – to ensure that, where failures do occur, disruption is minimised
- These areas align with those we will focus on in our assurance work, as detailed under the '**Bank's Supervisory Approach at Gate 2**' in the DSS Policy Statement
- We intend to run a webinar for Gate 2 applications in Q1

Contact us – [DSSEnquiries@bankofengland.co.uk](mailto:DSSEnquiries@bankofengland.co.uk)

