

**Bank of England**



# **Digital Securities Sandbox (DSS)**

## **Gate 2 webinar – Q&A responses**

July 2025

## Foreword

On Tuesday 29 April 2025, the Bank and FCA hosted a webinar on the Gate 2 application process for hybrid firm applications, including walking through what both regulators are looking for, as well as covering details for standalone DSD applications.

As part of that webinar, attendees submitted questions to the presenters. This document provides a summary of those questions, and written responses, including those that were not answered during the webinar.

The following responses are grouped by the regulator that provided the answer. For questions where both the Bank and FCA contributed, we have provided a joint response. Some of the questions have also been edited for clarity.

# Questions and Answers

## Responses from the Bank of England (BoE)

### **1. What happens if a firm uses up the 3 hours allocated for Gate 2 pre-application calls with the Bank, but needs more time?**

Where firms wish to discuss policy questions, cross-firm issues, or other applications separate to the Gate 2 application (e.g. settlement finality designation), this time will not count towards the Bank's 3-hour allocation. Otherwise, the Bank will generally stick to this limit to ensure consistency and fairness across firms, and will only exceed it on an exceptions basis. We therefore suggest firms prepare in advance, so they make the best use of the 3 hours.

### **2. If a firm needs to restructure its business before applying for Gate 2, for example to better meet capital requirements, would this require restarting its participation in the DSS, or can it be done as part of its existing participation?**

As explained in our [first Gate 2 webinar](#), the Bank will continue assessing a Gate 2 application where it has sufficient information to make an authorisation decision.

If we require clarification on aspects of the application, but are otherwise able to continue assessing the firm against the key areas, we may pause the assessment while we await a response. However, if there are more material gaps that prevent us from progressing the application, we will ask the firm to address these and resubmit its application.

A business restructure, where the same legal entity remains the applicant may fall into either of these categories, depending on the nature of the changes. We encourage firms to raise these types of changes with us in our pre-application calls. If the restructure results in a different legal entity being used, a new application would be required.

### **3. What are the advantages of having Settlement Finality Regulation (SFR) designation for firms at Gate 2?**

Under the DSS Rules, designation under the Settlement Finality Regulations (SFR) is not mandatory at Gate 2. It is for firms to decide whether they seek SFR designation before going live in the DSS.

SFR designation helps preserve the integrity of a securities settlement system in the event of insolvency of a participant. Once settlement is deemed final and irrevocable (i.e. the point of settlement finality), it provides legal certainty that the settlement cannot be unwound, even in the event of a participant default.

**4. Can the application for SFR designation be submitted before the full Gate 2 application?**

Firms cannot submit an application for SFR designation before submitting their full Gate 2 application. However, both applications can be submitted at the same time.

While SFR designation applications can be submitted after the Gate 2 application, firms should carefully consider whether they need designation in place ahead of going live or whether it is appropriate at a later stage of their DSS participation.

Firms should refer to the guidance appended to the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 for details on what should be included in their application. There is some overlap between the information required for SFR designation and the Gate 2 application. Where relevant, firms are encouraged to cross-refer between the two.

Additional information will be required for SFR designation, such as system participant agreements and any key outsourcing level arrangements.

**5. Will SFR designation be required to proceed beyond Gate 2, for example, at Gate 3?**

As set out in the DSS Policy Statement, the Bank has not required firms to obtain settlement finality designation under the Settlement Finality Regulations (SFRs) during participation in the DSS. We have however indicated that settlement finality designation may be required as part of any future permanent regime.

The Bank will continue to engage with firms and provide clarity on any evolving requirements if and when they arise in the DSS.

**6. What arrangements will the Bank have in place to secure equivalence with links to market infrastructures located in other jurisdictions?**

Equivalence decisions with other jurisdictions are not a prerequisite for establishing links with overseas market infrastructure in the DSS. Entrants may

establish links with third-country CSDs or DSDs, subject to the Bank assessing those links on a case-by-case basis to ensure they meet the appropriate standards.

For third-country CSDs, the appropriate standards are allowed to be requirements that are the same as for DSDs or requirements that are equivalent to the standards for DSDs. Please refer to section 19 of the DSS rules for further details.

**7. How will the Bank engage with hybrid firms, once they are in Gate 2, and what type of support can firms expect?**

The Bank is still finalising its approach to supervising both standalone DSDs and hybrid firms once they pass Gate 2. However, we intend to maintain proportionate engagement to deepen our understanding of firms' use of technology and operating models, and to help ensure that supervisory expectations continue to be met.

This engagement will also inform our approach to Gate 3, including the development of Gate 3 rules. We will continue to coordinate with the FCA for hybrid entrants to help reduce regulatory burden where appropriate.

## **Responses from the Financial Conduct Authority (FCA)**

**8. Is the FCA upfront fee refundable in any part if the application is not approved?**

No, the FCA fee is non-refundable. However, the FCA will engage with firms ahead of their application to ensure there is clarity on what a reasonable application should contain for prospective sandbox entrants.

**9. How does the FCA ensure that hybrid firms meet the Threshold Conditions for authorisation?**

The FCA will engage with firms and undertake pre-application meetings to understand how firms intend to meet the Threshold Conditions. However, firms will ultimately need to demonstrate that they meet these conditions at the point of authorisation.

**10. Firms are encouraged to raise issues with the Bank regarding waivers. Will the FCA consider any modifications or waivers to their rules, particularly those applicable to trading venues?**

The FCA's Trading Venues application process remains unchanged. While we aim to operate within a shortened timeframe under the DSS, we are not currently considering modifications or waivers to rules applicable to trading venues.

The FCA has used its DSS rulemaking powers and updated the joint DSS Guidance to clarify how the activities of a DSD would be treated under the FCA Handbook when carried on by an FCA-authorised firm.

**11. What is the difference between 'Own Funds' requirement and the Capital Reserve requirement for an MTF?**

Typically, the firm's prudential capital, or Own Funds requirement, as a small non-interconnected firm (SNI), is the permanent minimum requirement of £150,000. However, this is the minimum, with this being only one part of the Own Funds requirement calculation and can be substantially higher.

The FCA will also assess the application with regards to Threshold Conditions, relevant MiFID II and MiFID ITS 19 requirements, and cyber and operational resilience.

## **Joint Responses from the Bank of England and the FCA**

**12. How can firms make the most of the pre-application engagement calls with the Bank and FCA? How can firms effectively raise potential areas of regulatory overlap, especially where one application may be submitted before the other?**

Firms can use pre-application engagement calls in the way that's most useful to them. We suggest being clear on the topics you want to raise with the Bank and/or FCA, and sending any relevant questions or materials in advance to make the most of the time.

Firms should aim to identify any areas of regulatory overlap or shared relevance between their Bank and FCA applications, even if the timing of the submissions differs. Considering these aspects early can help minimise the regulatory burden. Being clear about the expected timings of your applications to each regulator will also help us coordinate and process applications more efficiently.

### **13. Can hybrid firms provide access to retail clients?**

Yes, both the Bank and FCA acknowledge that direct retail client access is possible within the DSS. Proposals involving retail clients will be assessed on a case-by-case basis.

For standalone DSD firms, applicants should note that Bank Gate 2 approval timelines will take longer to reflect the nature of serving retail clients. Firms anticipating extending services to retail clients, particularly where this is not core to their business model, may wish to consider deferring retail inclusion to a later stage in the DSS journey, such as Gate 3.