

Bank of England

Digital Securities Sandbox (DSS)

Gate 2 webinar – Q&A responses

Financial Markets Infrastructure Directorate

May 2025

Foreword

On Friday 31 January 2025, the Bank hosted a webinar to provide an overview of the Gate 2 application process for firms making standalone DSD applications, including walking through the forms that need to be submitted.

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.

Please note that some questions have been edited for clarity.

Questions and Answers

1. How will the Bank engage with firms once they're in Gate 2, and what type of support can they expect?

The Bank is still finalising its approach to engaging with firms after they pass Gate 2. We intend to maintain engagement to deepen our understanding of firms' use of technology and operating models, and to ensure that supervisory expectations continue to be met. This engagement will also help 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 reduce regulatory burden where possible.

2. As part of the pre-application engagement for Gate 2, can firms discuss their approach to custody and asset protection using DLT with the Bank and receive guidance on their options?

Yes, firms that have passed Gate 1 will have access to 3 hours of pre-application calls as default to support them in preparing their Gate 2 application. This engagement provides an opportunity for firms to discuss specific aspects of their business or operating model, including their approach to using DLT for custody and asset protection.

The Bank will assess how firms mitigate key risks, including asset loss as a result of theft of data corruption, as part of the Gate 2 application process. Firms are encouraged to use pre-application discussions to seek clarity on application requirements and expectations. However, the Bank cannot operate as a 'consultancy' to recommend certain approaches or provide guidance outside of this.

3. Why are you charging fees for participation, particularly at Gate 2?

The £40,000 fee payable at Gate 2 reflects the level of work required from regulators to assess firms at this stage of the DSS process. It is important to note that firms are only required to pay the Gate 2 fee if they are successful in passing through Gate 2.

4. The Bank's self-attestation form for Gate 2 appears to only focus on certain DSS rules, including those from the Central Securities Depositories Regulation (CSDR). Why does the Bank not require firms to explicitly attest to their compliance with other applicable rules, such as those under the Uncertified Securities Regulations (USR), as part of the Gate 2 admissions process?

The Bank requires a signed letter from the CEO and, where applicable, the Chair of the Board, confirming that the firm adheres to all applicable rules under the DSS, including those under the Uncertified Securities Regulations (USRs).

In addition, we have chosen to ask firms to complete the self-attestation form which asks them to explain how they meet a subset of DSS rules, which are derived from the Central Securities Depositories Regulation (CSDR). This helps the Bank gain a clearer understanding of the firm's business model, governance arrangements, and risk management approach. It also supports more targeted and informed engagement with firms once we have reviewed their Gate 2 application documents.

We have taken the view that requiring a provision-by-provision attestation across all applicable rules would be a disproportionate use of resources, both for firms and for the Bank, if applied as a standard expectation. However, where appropriate, we may request further evidence of compliance with applicable rules as part of our Gate 2 assessment. The Bank may use its information-gathering powers under the DSS Regulations to support this, where needed.

5. What are the Bank's expectations for firms in relation to non-live testing prior to passing Gate 2?

Firms are not permitted to carry out live activity, including live testing, prior to passing Gate 2. There is no requirement for firms to undertake specific non-live testing before submitting their Gate 2 application. However, firms may choose to refer to the results of any non-live testing as part of their application, where this helps to demonstrate that they have plausible plans to manage the key risks the Bank will assess at Gate 2.

6. Can firms request flexibility or exemptions from specific Gate 2 rules, or are these rules considered the minimum requirement?

Sandbox entrants may request waivers or modifications to specific Bank rules where elements of the DSS framework are unduly burdensome for their business model or do not serve their intended purpose in the firm's specific context. Firms will need to demonstrate that their business model genuinely requires the

exemption in order to operate effectively, and they can still manage risks to the standards required in the DSS rules.

The current DSS guidance includes a non-exhaustive list of Gate 2 requirements from the Bank's DSS Rules Instrument where flexibility may be available, depending on the firm's circumstances. We are also preparing a separate application form for waiver and modification requests, which will be made available shortly as part of a future update to the DSS guidance.

7. In relation to cyber security, what is the scope of cyber contagion that the Bank expects firms to address in their risk management approach?

The Bank expects firms to consider contagion risks that extend beyond the firm itself. Specifically, we will be looking to gain assurance that firms have identified and addressed potential cyber risks that could be introduced to the wider financial system as a result of the firm's cyber security vulnerabilities.

8. What is the DSS approach to supporting start-ups that are still securing founder funding and may not have finalised banking arrangements?

In line with our objectives, the DSS has been designed to facilitate a variety of business models, and to encourage new entrants into the market. As such, we welcome applications at Gate 1 from early-stage start-ups, including those still in the process of securing founder funding or setting up bank arrangements.

To support new entrants we have made a number of targeted modifications to applicable regulatory requirements at Gate 2 with the objective of making these more proportionate in the early stages of the DSS. For example we have reduced a DSD's minimum capital requirement to 6 months of operating expenses from the original proposal of 9 months of operating expenses. However, firms should be aware that to pass Gate 2, they will need to demonstrate adequate capitalisation, as set out in the DSS rules.

9. Is there any possibility of expediting the target four-month assessment timeline for Gate 2 applications?

The Bank does not offer a formal expedited assessment process for Gate 2 applications. We aim to make a decision within four months of receiving a complete application for a typical entrant. This timeframe reflects the complexity of the assessment and ensures consistency across all applicants. It is dependent on applicants submitting a high-quality, well-considered application and maintaining timely and open communication with the Bank throughout the process.

While we understand that some prospective applicants may be participating in similar initiatives in other jurisdictions, the Bank is required to carry out its own independent assessment.

10. How many Gate 2 applications have you received so far?

We publish updated Sandbox Approval Notices (SANs) for firms that have passed Gate 2 on the [DSS dashboard](#). While we do not publish the number of applications received, we remain committed to transparency about activity in the DSS, including how overall capacity is being used by firms.

11. How many firms do you expect to approve at Gate 2, and what do you consider a successful outcome for the DSS?

We do not set a specific number of firms as benchmark for success. Our aim is to support as many suitable firms as we can, while maintaining minimum supervisory standards. The DSS is a test-case for a new approach to policymaking, one where we can observe activity and consider whether changes to rules or legislation are required to enable innovation. For that reason, success is not measured by the number of firms alone.

12. When will you publish the “end-state” final regime for authorisation?

One of the key aims of the DSS is to test how UK legislation may need to adapt to support the use of digital asset technology. To do this, the Bank needs to observe live activity within the DSS before proposing any changes to the end-state regulatory regime. In relation to the next stage of the DSS:

- The Bank aims to publish draft Gate 3 rules in Q1 2026, once the DSS has been operational for at least 15 months.
- Ahead of this, we will use workshop-style discussions with industry in H2 2025 to share early thinking on the direction of travel for both Gate 3 and the end-state regime. We do not intend to formally consult on the draft Gate 3 rules.

In relation to the final end-state regime (Gate 4 and beyond):

- The Bank is not currently in a position to confirm a publication date for the end-state rules.
- However, we expect that rules will be updated periodically as the DSS progresses, and as we learn more about the risks associated with the technologies and services in scope.

In parallel, the Bank is also considering the treatment of potential non-systemic firms more generally. We intend to use workshop-style discussions with DSS participants in H2 2025 to share our early thinking on this.