



Why is the DSS Such an Important Step in the UK's Approach to Embracing Digital Finance?

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In the rapidly evolving world of digital finance, the UK's approach to embracing innovation is crucial for maintaining its position as a global financial leader. The Digital Securities Sandbox (DSS) initiative, led by the Bank of England and the Financial Conduct Authority (FCA), represents a significant step in this direction. By providing a structured environment for firms to experiment with new technologies and business models, the DSS aims to foster innovation while ensuring financial stability and market integrity.

What is the DSS?

The DSS allows firms to undertake activities traditionally associated with central securities depositories (CSDs) and combine these with the operation of a trading venue. Firms will be exploring how developing technologies, such as distributed ledger technology (DLT), can be used in the issuance, trading, and settlement of securities in the UK.

Eligibility and Application Process

To enter the DSS, firms must meet several requirements and follow a structured application process. Firstly, firms must be established in the UK and intend to undertake trading, notary, settlement, and maintenance activities. The application process involves several stages, including:

- 1. Initial Application Stage (Gate 1):** Firms submit the initial application to become a Sandbox Entrant.
- 2. Testing and Preparations Stage (Gate 2):** Firms apply for authorisation to operate a trading venue with the FCA and become a Digital Securities Depository (DSD) with the Bank of England.
- 3. Go-Live Stage (Gate 3):** Firms begin live operations within the sandbox.
- 4. Scaling Stage (Gate 4):** Firms scale operations and transition to a permanent regulatory framework.

Once accepted, firms receive a Sandbox Approval Notice (SAN), allowing them to begin testing and live activities within the DSS. The SAN specifies whether the firm can operate as a standalone Digital Sandbox Developer (DSD) or a hybrid entity.

Costs Associated with DSS

Entering the DSS involves several costs, including application fees, operational costs, compliance costs, capital requirements, and ongoing fees. These costs can vary depending on the size and complexity of the firm's operations. Application fees are paid to the Bank of England and the FCA for processing applications. Operational costs include setting up and maintaining the necessary infrastructure to operate within the DSS. Compliance costs involve ensuring that firms meet regulatory requirements, which may include legal and consultancy fees. Ongoing fees cover supervision and other regulatory activities.

Regulatory Approach and Risk Management

The [DSS guidance](#) outlines the regulators' approach to supervising firms within the sandbox, emphasising the need for firms to manage risks appropriately, especially those related to cybersecurity and operational disruptions. The guidance is a live document that will be periodically updated based on feedback from firms operating in the DSS. Significant changes will be noted and communicated by the regulators.

Conclusion

The DSS initiative is a significant step towards fostering innovation in the digital finance sector. By providing a structured and supportive environment, the DSS allows firms to experiment with new technologies and business models while ensuring financial stability and market integrity. As the digital finance landscape continues to evolve, initiatives like the DSS will play a crucial role in shaping the future of the industry but it is important to recognise that the DSS has a significant barrier to entry. Firms need to properly manage the complexities of application process and ensure adherence to Bank of England and FCA requirements throughout.

This post contains a general summary of advice and is not a complete or definitive statement of the law. Specific advice should be obtained where appropriate.