

# UK embraces DLT and tokenisation: direction of travel

## Redefining the frontiers of financial system efficiency

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This article provides some insights on the direction of travel in the UK in relation to distributed ledger technology (DLT) and digital assets, in light of recent legislative and policy developments that signal the UK's ambitions for scaling the adoption of DLT technology and facilitating growth in this space. These include: (1) an update on the future regulatory regime for cryptoassets, including stablecoins and staking services, (2) the Bank of England's remarks at the Tokenisation Summit 2024 on DLT in wholesale markets, and (3) next steps for digital gilts in the UK.

### Future regime for cryptoassets in the UK

During her keynote speech at the Tokenisation Summit 2024 on 21 November 2024, Tulip Siddiq MP (Economic Secretary to the Treasury) announced the government's plans to introduce draft legislation addressing cryptoassets in the new year. In particular she noted that:

- the draft regulatory framework is expected to cover both stablecoins and other cryptoassets, including staking services, under "a single phase"—this may indicate a contrast with the phased approach proposed by the previous government, which would have seen draft legislation for

stablecoins introduced prior to the legislation covering other types of cryptoassets and activities;

- the draft legislation should clarify that staking services do not fall within scope of the definition of a “collective investment scheme”, which is currently a point of regulatory uncertainty; and
- the government plans to introduce such legislation as early as possible in 2025, although no precise timeline was given at the time.

On 26 November 2024, the FCA published a [roadmap](#) for the development and introduction of the UK’s cryptoasset regime, setting out a series of focused consultations on various aspects of the cryptoasset regime, with all final policy statements expected to be published over the course of 2026 (subject to parliamentary time). Notably, the roadmap indicates that consultations on admissions and disclosures, and the market abuse regime for cryptoasset markets, are expected to be published before the end of 2024, while consultations on the rules for stablecoins as well as trading platforms, lending, staking, and other intermediary activities are expected to be introduced Q1/Q2 2025. The roadmap is published alongside the FCA’s latest consumer [research](#), which show a continued increase in interest and awareness of cryptoassets, as well as a rise in UK consumer holdings of cryptoassets, and a [blog post](#) summarising the FCA’s findings based on a series of roundtables held by the FCA earlier in the year - please see our separate article on the FCA publications [here](#).

For completeness, with respect to *existing* rules on financial promotions relating to cryptoassets, the FCA on the same day also published further clarifications regarding its [expectations](#) on regulated/registered firms providing on/off ramp services to unregistered cryptoasset firms which may be illegally making promotions to UK consumers.

## **Bank of England on DLT in wholesale markets**

Also at the Tokenisation Summit 2024, Sasha Mills, Executive Director for Financial Market Infrastructures at the Bank of England (BoE), brought the use of DLT in wholesale financial markets into the spotlight. She noted the potential benefits of DLT, including the reduced need for a single central party to perform record-keeping obligations, the ability to improve security and integrity of financial transactions through the use of cryptographic techniques, and the potential for programmability to reduce settlement risk and give rise to “unprecedented” efficiency gains in the trade lifecycle. Importantly, she acknowledged the importance of driving innovation in the two components, i.e. both assets and money, to unlock innovation in financial markets.

Sasha Mills highlighted some of the BoE's initiatives in this space, most notably:

- the Digital Securities Sandbox (DSS) which facilitates trade in both digitally native and tokenised assets (see our previous article on the DSS [here](#)), Notably, the speech encourages firms to utilize the DSS to experiment with the tokenisation of funds, in particular with Money Market Funds (MMFs) as securities where tokenised fund units may be used as collateral;
- digital payments and money. The BoE starting position is that the "singleness of money" – the principle that all different forms of money must be exchangeable with each other at par – is fundamental to monetary and financial stability. Consequently, the BoE maintains a low-risk appetite for a significant shift away from wholesale settlement in central bank money to privately-issued forms of money like tokenised deposits, and is exploring ways to enhance access to central bank money via its Real Time Gross Settlement (RTGS) system through synchronisation (which could enable the transfer of an asset from one party to another on a DLT platform). The BoE also recognizes the case for and is carrying out experiments in wholesale central bank digital currency technologies—see our summary of the BoE's discussion paper on innovations in money and payment [here](#)); and
- through its participation in the international projects, such as in the BIS' [Project Agorá](#) (alongside six other central banks) which seeks to explore how tokenised commercial bank deposits and central bank money may be exchanged on a public-private programmable platform.

The speech concludes by noting the commitment from the BoE to explore opportunities for innovation in DLT, particularly in the wholesale financial markets—from securities settlement to new forms of money—as well as recognising the BoE's role to ensure innovation happens in a way that is safe for market participants and does not propagate risk.

## What's next for digital gilts?

As mentioned in our previous [article](#), Rachel Reeves, Chancellor of the Exchequer, announced the government's intention for a pilot issuance of digital gilt (known as DIGIT) during her Mansion House speech on 14 November 2024. Tulip Siddiq subsequently [noted](#) that the government is intending to issue a digital bond "with similar features to a conventional gilt". Given that the pilot is experimental, it will sit outside of and be separate from the Debt Management Office's gilt and Treasury Bill

operations. Instead, it will use the Digital Securities Sandbox (DSS), which opened to applications in September 2024 and provides a regulatory environment through which firms can use and experiment with DLT in a controlled setting in which certain pieces of existing legislation are modified so as to enable transactions using DLT technology. The government now plans to add to these pieces of legislation in order to enable a digital gilt issuance under the DSS. Accordingly, on 31 October 2024, the government laid the [Financial Services and Markets Act 2023 \(Addition of Relevant Enactments\) Regulations 2024](#), to bring the Stock Transfer (Gilt-Edged Securities) (CGO Service) Regulations 1985 (STRs) and Government Stock Regulations 2004 (GSRs) within scope of the Financial Market Infrastructure Sandbox powers set out under s.17(3) FSMA 2023. This means that HM Treasury will be granted powers to apply, disapply or modify the effect of these pieces of legislation when establishing new FMI sandboxes or modifying existing sandboxes, such as the DSS. As the [Explanatory Memorandum](#) states this "*would facilitate the possibility of sovereign debt issuances utilising distributed ledger technology under the DSS*".

In terms of next steps, the government has said it plans to engage with industry in the new year to consider what a pilot issuance could look like and what technology options might be available for a digital gilt issuance. It is also the government's intention to work with the industry to test the technology across the life cycle of a gilt in order to explore the potential benefits that DLT could bring to the debt issuance process. In addition, the government would need to set out the specific modifications to the GSRs and the STRs that will be needed in order to facilitate a digital gilt in a future statutory instrument (SI).

#### Next Steps

We will continue to monitor future developments, in particular for further announcements on the FCA consultations on the cryptoasset regime, draft stablecoin rules in the new year, as well as the progress of the DSS, the UK digital gilt pilot and further BoE exploration in relation to wholesale digital markets.

For more information, feel free to get in touch with a member of the team and visit our [Hogan Lovells Digital Assets and Blockchain Hub](#).

*This article is for guidance only and is a non-exhaustive summary only of certain aspects of the points discussed and should not be relied on as legal advice in relation to a particular transaction or situation.*

*Please contact your normal contact at Hogan Lovells if you require assistance or advice in connection with any of the above.*

## Contacts



John Salmon

Partner

London

[Email me](#)



Sharon Lewis

Partner

Paris, London

[Email me](#)



Michael Thomas

Partner

London

[Email me](#)



Bryony Widdup

Partner

London

[Email me](#)



Sinéad Meany

Lawyer

London, Dublin

[Email me](#)



Christina Wu

Associate

London

[Email me](#)



Isobel Wright

Counsel Knowledge Lawyer

London

[Email me](#)



Lavan Thasarathakumar

Senior Advisor

London

[Email me](#)