

Bank of England

Bank of England Digital Securities Sandbox Rules Instrument 2024

September 2024

BANK OF ENGLAND DIGITAL SECURITIES SANDBOX RULES INSTRUMENT 2024

Powers exercised

- A. The Bank of England (“Bank”), being the appropriate regulator within the meaning of the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 (“DSS Regulations”) makes this instrument in the exercise of its powers in:
- (1) Regulation 7 of the DSS Regulations;
 - (2) Regulation 8 of the DSS Regulations; and
 - (3) Section 166(9) of the Financial Services and Markets Act 2000 as applied and modified by Part 3 of the Schedule to the DSS Regulations.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Financial Services and Markets Act 2000, as applied to the Bank in paragraph 10 of Schedule 17A of the Act, which is also applied and modified for the purposes of making rules under regulation 7 by Part 3 of the Schedule to the DSS Regulations.

Digital Securities Sandbox Rules

- C. The Bank makes the rules in the Annex A (Bank of England Digital Securities Sandbox Rules – Gate 2) to this instrument.

Notes

- D. In the Annex to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

Commencement

- E. This instrument comes into force on 30 September 2024.

Citation

- F. This instrument may be cited as the Bank of England Digital Securities Sandbox Rules Instrument 2024.

By order of the Financial Markets Infrastructure Committee of the Bank of England
12 September 2024

Annex A

Bank of England Digital Securities Sandbox Rules – Gate 2

Bank of England Digital Securities Sandbox Rules – GATE 2

Chapter content

1. GENERAL RULES
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CHAPTER 1: GENERAL RULES

SCOPE AND GENERAL APPLICATION OF THIS ANNEX

- 1.1 This Annex applies to a *DSD* whose *SAN* states that the *DSD* has passed Gate 2.
- 1.2 With the exception of Article 47 of Chapter 2 (which applies to a *DSD* in respect of its *DSS activities* – see Article 47.2A) the *rules* apply to a *DSD* in respect of its *DSD activities*.

DISAPPLICATION OF TECHNICAL STANDARDS

- 2.1 The following technical standards are disapplied for a *DSD* in respect of its *DSD activities*:
- (1) Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services,
 - (2) Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards further specifying the content of the reporting on internalised settlements,
 - (3) Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories,
 - (4) Commission Implementing Regulation (EU) 2017/393 of 11 November 2016 laying down implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council, and
 - (5) Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down implementing technical standards with regard to standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council.

[Note: this provision is made using the power to modify technical standards in regulation 8 of the DSS regulations.]

[Note: The following articles of the technical standards that are disapplied in 2.1 apply as *rules*, as modified, in Chapter 3 - Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories (RTS 2017/392).]

DEFINITIONS AND INTERPRETATION

- 3.1 In the *rules*, the following definitions apply where italicised:

Assimilated law

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has the same meaning as the definition given in section 6(7) of the European Union (Withdrawal) Act 2018.

Bank

means the Bank of England.

CRR rules

has the same meaning as the definition given in section 144A of *FSMA*.

CSDR

means the Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

Customised link

means a *DSD link* whereby a *DSD* that becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* is provided with additional specific services to the services normally provided by that *DSD*, *CSD* or *third-country CSD* to participants in the *Securities Settlement System*.

Direct EU legislation

has the same meaning as the definition given in section 3(2) of the European Union (Withdrawal) Act 2018.

DSD

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSD activities

means *DSS activities* that relate to:

(a) the carrying on one or more of the following functions in connection with an FMI sandbox instrument:

- (i) maintenance;
- (ii) notary;
- (iii) settlement; and

(b) any activities that are ancillary to the activities referred to in (a).

DSD link

means an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

- a) a *DSD* becomes a participant in the *Securities Settlement System* of another *DSD* or a *CSD*; or
- b) a *CSD* becomes a participant in the *Securities Settlement System* of a *DSD*;

in order to facilitate the transfer of securities from the participants of the latter *DSD* or *CSD* to the participants of the former *DSD* or *CSD*

OR

an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

- a) a *DSD* accesses another *DSD* or a *CSD* indirectly via an intermediary; or
- b) a *CSD* accesses a *DSD* indirectly via an intermediary.

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DSD links include *standard links*, *customised links*, *indirect links*, and *interoperable links*.

DSS activities

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSS CSDR

has the same meaning as the definition given in Part 2 of the Schedule to the *DSS Regulations*.

DSS Regulations

means the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 (2023/1398).

DSS USRs

means the *Uncertificated Securities Regulations* as modified in Part 5 of the Schedule to the *DSS Regulations*.

EU directive

has the same meaning as the definition given in section 20(1) of the European Union (Withdrawal) Act 2018.

EU-derived domestic legislation

has the same meaning as the definition given in section 2(2) of the European Union (Withdrawal) Act 2018.

FSMA 2000

means the Financial Services and Markets Act 2000.

Indirect link

means an arrangement between a DSD and a third party other than a DSD, CSD or third-country CSD, that is a participant in the Securities Settlement System of a DSD, CSD or third-country CSD. Such a link is set up by a DSD, CSD or third-country CSD in order to facilitate the transfer of securities to its participants from the participants of another DSD, CSD or third-country CSD.

Interoperable link

means a DSD link whereby DSDs, CSDs or third-country CSDs agree to establish mutual technical solutions for settlement in the Securities Settlement Systems that they operate.

Investor DSD

means a *DSD* that either is a participant in a *Securities Settlement System* operated by another *DSD*, *CSD* or *third-country CSD* or that uses a third party or an intermediary that is a participant in a *Securities Settlement System* operated by another *DSD*, *CSD* or *third-country CSD* in relation to a securities issue;

IP completion day

has the same meaning as the definition given in section 39 of the European Union (Withdrawal Agreement) Act 2020.

Issuer DSD

means a *DSD* which provides the core service in regulation 3(5)(b)(i) or 3(5)(b)(ii) of the *DSS Regulations* in relation to a securities issue;

Linked party

means the *DSDs* or *CSDs* which are part of, applying to be part of, or dealing with an application to be part of, a *DSD link*.

Receiving DSD

means a *DSD* which receives the request of another *linked party* to have access to its services through a *DSD link*.

Requesting DSD

means a *DSD* which requests access to the services of a *linked party* through a *DSD link*.

Rules

means the rules set out in this Annex.

SAN

means a 'sandbox approval notice' as defined in regulation 2 of the *DSS Regulations*.

Securities Settlement System

means a securities settlement system as defined in the *DSS CSDR*, or a system operated by a *DSD* that settles transactions in financial instruments against payment or against delivery, irrespective of whether that settlement system is a system in relation to which a designation order made under regulation 4 of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 is in force.

Standard link

means a *DSD link* whereby a *DSD* becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* under the same terms and conditions as applicable to any other participant in the *Securities Settlement System* operated by the latter.

Third-country CSD

has the same meaning as the definition given in the *DSS CSDR*.

Type (a) banking services provider

means a *DSD* the terms of whose *SAN* permit it to offer banking-type ancillary services set out in Section C of Chapter 4.

Type (b) banking services provider

means a *DSD* the terms of whose *SAN* permit it to engage one or more credit institutions for the purposes of providing banking-type ancillary services set out in Section C of Chapter 4.

Uncertificated Securities Regulations

means the Uncertificated Securities Regulations 2001 (2001/3755).

3.2 Unless otherwise defined, expressions used in the *rules* have the same meaning as in the *DSS Regulations*.

3.3 Subject to 3.2, and unless otherwise defined:

- (1) expressions used in Chapters 2 to 4 have the same meaning as in the *DSS CSDR*, with the modification that references to 'the Annex' in the *DSS CSDR* are to be read as referring to Chapter 4 of this Annex; and

- (2) expressions used in Chapter 5 have the same meaning as in the *DSS USRs*, with the modification that references to ‘the Operator’ are to be read as referring to a *DSD* acting as an ‘Operator’ for the purposes of the *DSS USRs*.

[**Note:** In accordance the provisions of Part 5 of the Schedule to the *DSS Regulations* a reference in the *DSS USRs* to a provision of the *Uncertificated Securities Regulations* that is disapplied in that Part 5 is to be treated as a reference to any rules set out in Chapter 5 on the subject matter of the disapplied provision.]

- 3.4 Depending on the context in the *rules*, provisions may refer to ‘articles’, ‘paragraph’ or ‘rules’. For the avoidance of doubt, they are all operative parts of the *rules*.
- 3.5 Unless the context otherwise requires, any reference in the *rules* to:
- (1) any provision of *direct EU legislation* is a reference to it as it has effect as *assimilated law*; and
 - (2) an *EU directive* is a reference to the directive as it had effect in EU law immediately before *IP completion day*.

SKILLED PERSON REPORT

- 4.1 Where the *Bank* gives notice to a *DSD* under section 166(5) of *FSMA 2000*, as modified by the *DSS Regulations*, that the *Bank* has appointed a person under section 166(3)(b) to provide a report:
- (1) the *DSD* must pay as a fee the expenses which the *Bank* specifies in its notice; and
 - (2) the fee must be paid within 30 days beginning with the date of the notice.
- 4.2 Expenses which may be specified include any amount invoiced to the *Bank* by the appointed person in relation their appointment.

EMERGENCY

- 5.1 If an emergency arises which:
- (1) makes it impracticable for a *DSD* to comply with a provision of the *rules*;
 - (2) could not have been avoided by the *DSD* taking all reasonable steps; and
 - (3) is outside the control of the *DSD*,
- the *DSD* will not be in contravention of that provision to the extent that, as a consequence of the emergency, compliance with the provision is impracticable.
- 5.2 The rule in 5.1 applies only for so long as:
- (1) the consequences of the emergency continue; and
 - (2) the *DSD* can demonstrate that it is taking all practicable steps to deal with those consequences and to comply with the provision.
- 5.3 The *DSD* must notify the *Bank* as soon as practicable of the emergency and of the steps the *DSD* is taking and proposes to take to deal with the consequences of the emergency.

SAN BREACHES

- 6.1 If a *DSD* breaches any conditions, limitations, approvals or restrictions specified in its *SAN*, it must report the breach to the *Bank* as soon as is practicable after becoming aware of the breach.

CHAPTER 2: RULES ON THE SUBJECT MATTER OF DSS CSDR

[**Note:** Articles 1-5,10,13, 27.7, 27.8, 27.9, 67, 69, 73 and 76 apply in the *DSS CSDR*, as modified by the Schedule to the *DSS Regulations*.]

ARTICLE 19 EXTENSION AND OUTSOURCING OF ACTIVITIES AND SERVICES

- 19.1 If not already permitted by its *SAN*, a *DSD* must submit a request to the *Bank* to modify the approved activities in its *SAN* where it wishes to outsource a core service to a third party under Article 30 or extend its activities to one or more of the following:
- (a) additional core services listed in Section A of Chapter 4;
 - (b) ancillary services permitted under Section B of Chapter 4,
 - (ba) any other ancillary FMI activity (as defined in regulation 3(6) of the *DSS Regulations*);
 - (c) the operation of a *Securities Settlement System* or another *Securities Settlement System*;
 - (d) the settlement of all or part of the cash leg of any *Securities Settlement System* it operates in the books of another settlement agent;(e) setting up an *interoperable link*.
- 19.2 [**Note:** left blank]
- 19.3 A *DSD* that intends to establish an *interoperable link* must make a request to vary its *SAN* as required under subparagraph (e) of paragraph 1 to the *Bank*, where the *SAN* does not already permit them to do so.
- 19.4 [**Note:** left blank]
- 19.5 *DSD links* that are not referred to in subparagraph (e) of paragraph 1 are not subject to a requirement to vary the *SAN* but must be notified to the *Bank* prior to their implementation by providing all relevant information that allows the *Bank* to assess compliance with the requirements provided in Article 48 and Chapter 3.
- 19.6 A *DSD* may maintain or establish a link with a *third-country CSD* in accordance with the conditions and procedures provided in this Article. Where links are established with a *third-country CSD* the information provided by the *requesting DSD* must allow the *Bank* to evaluate whether such links fulfil the requirements provided in Article 48 or the requirements that are equivalent to those provided in Article 48 and Chapter 3.
- 19.7 [**Note:** left blank]
- 19.8 [**Note:** left blank]

ARTICLE 26 ORGANISATIONAL REQUIREMENTS: GENERAL PROVISIONS

- 26.1 A *DSD* must have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and internal control mechanisms, including sound administrative and accounting procedures.
- 26.2 A *DSD* must adopt policies and procedures which are sufficiently effective so as to ensure compliance with the *DSS CSDR*, its *SAN* and the *rules*, including compliance of its managers and employees with all the provisions of *DSS CSDR*, its *SAN* and the *rules*.
- 26.3 A *DSD* must maintain and operate effective written organisational and administrative arrangements to identify and manage any potential conflicts of interest between itself, including its managers, employees, members of the management body or any person directly or indirectly linked to them, and its participants or their clients. It must maintain and implement adequate resolution procedures where possible conflicts of interest occur.

26.4 [Note: left blank]

26.5 A *DSD* must have appropriate procedures for its employees to report internally potential infringements of the *DSS CSDR*, its *SAN* or the *rules* through a specific channel.

26.6 [Note: left blank]

26.7 Where a *DSD* is part of a group of undertakings including, for example, *CSDs*, *third-country CSDs* or credit institutions referred to in Articles 54 to 60, it must adopt detailed policies and procedures specifying how the requirements laid down in this Article apply to the group and to the different entities in the group.

ARTICLE 27 SENIOR MANAGEMENT, MANAGEMENT BODY AND SHAREHOLDERS

27.1 A *DSD* must ensure that the senior management of a *DSD* are of sufficiently good repute and experience so as to ensure the sound and prudent management of the *DSD*.

27.2 [Note: left blank]

27.3 [Note: left blank]

27.4 [Note: left blank]

27.5 A *DSD* must clearly determine the role and responsibilities of the management body in accordance with the relevant law applicable within the United Kingdom or of any part of the United Kingdom. A *DSD* must make the minutes of the meetings of the management body available to the *Bank* upon request.

27.6 [Note: left blank]

ARTICLE 29 RECORD KEEPING

29.1 A *DSD* must maintain, for a period of at least 5 years, all its records on the services and activities, including on the ancillary services referred to in Sections B and C of Chapter 4, so as to enable the *Bank* to monitor the compliance with the requirements under the *DSS CSDR*, its *SAN* and the *rules*.

29.2 A *DSD* must make the records referred to in paragraph 1 available upon request to the *Bank* and any other public authority which under the law applicable within the United Kingdom or of any part of the United Kingdom has a power to require access to such records for the purpose of fulfilling their mandate.

29.3 [Note: left blank]

29.4 [Note: left blank]

ARTICLE 30 OUTSOURCING

30.1 Where a *DSD* outsources services or activities to a third party, it remains fully responsible for discharging all of its obligations under the *DSS CSDR*, its *SAN* and the *rules* and must comply at all times with the following conditions:

- (a) outsourcing does not result in the delegation of its responsibility;
- (b) the relationship and obligations of the *DSD* towards its participants or issuers are not altered;
- (c) subject to article 19.1, any conditions and permissions given in the *SAN* of the *DSD* do not effectively change;

- (d) outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those functions;
 - (e) outsourcing does not result in depriving the *DSD* of the systems and controls necessary to manage the risks it faces;
 - (f) the *DSD* retains the expertise and resources necessary for evaluating the quality of the services provided, the organisational and capital adequacy of the service provider, for supervising the outsourced services effectively and for managing the risks associated with the outsourcing on an ongoing basis;
 - (g) the *DSD* has direct access to the relevant information of the outsourced services;
 - (h) the service provider cooperates with the *Bank* in connection with the outsourced activities;
 - (i) the *DSD* ensures that the service provider meets the standards set down by the relevant data protection law which would apply if the service providers were established in the United Kingdom. The *DSD* is responsible for ensuring that those standards are set out in a contract between the parties and that those standards are maintained.
- 30.2 The *DSD* must define in a written agreement its rights and obligations and those of the service provider. The outsourcing agreement must allow the *DSD* to terminate the agreement.
- 30.3 A *DSD* must and must procure that a service provider to the *DSD* make available upon request to the *Bank* all information necessary to enable the *Bank* to assess the compliance of the outsourced activities with the requirements of the *DSS CSDR*, its *SAN* and the *rules*.
- 30.4 [Note: left blank]
- 30.5 [Note: left blank]

ARTICLE 32 CONDUCT OF BUSINESS RULES: GENERAL PROVISIONS

- 32.1 A *DSD* must have clearly defined goals and objectives that are achievable, including around the level of service it aims to provide to its users and business priorities.
- 32.2 [Note: left blank]

ARTICLE 33 REQUIREMENTS FOR PARTICIPATION

- 33.1 For each *Securities Settlement System* it operates a *DSD* must have defined criteria for participation. A *DSD* must provide these criteria to the *Bank* on request.
- 33.2 [Note: left blank]
- 33.3 [Note: left blank]
- 33.4 [Note: left blank]
- 33.5 [Note: left blank]
- 33.6 [Note: left blank]

ARTICLE 36 REQUIREMENTS FOR DSD SERVICES: GENERAL PROVISIONS

- 36.1 For each *Securities Settlement System* it operates a *DSD* must have appropriate rules and procedures, including robust accounting practices and controls, to help ensure the integrity of securities issues, and reduce and manage the risks associated with the safekeeping and settlement of transactions in securities.

ARTICLE 37 INTEGRITY OF THE ISSUE

- 37.1 A *DSD* must take appropriate reconciliation measures to verify that the number of securities making up a securities issue or part of a securities issue submitted to the *DSD* is equal to the sum of securities recorded on the securities accounts of the participants of the *Securities Settlement System* operated by the *DSD* or, where relevant, on owner accounts maintained by the *DSD*, including those held at other CSDs for the purposes of immobilising assets held in other book-entry forms or forms of recording of securities using developing technology. Such reconciliation measures must be conducted at least daily.
- 37.2 Where appropriate and if other entities are involved in the reconciliation process for a certain securities issue, such as the issuer, registrars, issuance agents, transfer agents, common depositories, other CSDs, *third-country CSDs* or other entities, the *DSD* must organise adequate cooperation and information exchange measures between itself and any such entities so that the integrity of the issue is maintained.
- 37.3 Where a *DSD* operates a *Securities Settlement System*, it must not allow securities overdrafts, debit balances or securities creation within that *Securities Settlement System*.
- 37.4 [Note: left blank]

ARTICLE 38 PROTECTION OF SECURITIES OF PARTICIPANTS AND THOSE OF THEIR CLIENTS

- 38.1 For each *Securities Settlement System* it operates, a *DSD* must keep records and accounts that must enable it, at any time and without delay, to segregate in the accounts with the *DSD*, the securities of a participant from those of any other participant and, if applicable, from the *DSD*'s own assets.
- 38.2 A *DSD* must keep records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.
- 38.3 A *DSD* must keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation').
- 38.4 A *DSD* must keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').
- 38.5 [Note: left blank]
- 38.6 [Note: left blank]
- 38.7 A *DSD* must not use for any purpose securities that do not belong to it. A *DSD* may however use securities of a participant where it has obtained that participant's prior express consent. The *DSD* must require its participants to obtain any necessary prior consent from their clients.

ARTICLE 39 SETTLEMENT FINALITY

- 39.1 A *DSD* must ensure that any *Securities Settlement System* it operates offers adequate protection to participants, including by contractual arrangements.
- 39.2 A *DSD* must ensure that each *Securities Settlement System* that it operates defines the moments of entry and of irrevocability of transfer orders in that *Securities Settlement System*.
- 39.3 A *DSD* must disclose the rules governing the finality of transfers of securities and cash in any *Securities Settlement System* it operates.

- 39.4 Paragraphs 2 and 3 apply without prejudice to the provisions applicable to *DSD links*, and without prejudice to paragraph 8 of Article 48.
- 39.5 A *DSD* must take all reasonable steps to ensure that, in accordance with the rules referred to in paragraph 3, finality of transfers of securities and cash referred to in paragraph 3 is achieved either in real time or intra-day and in any case no later than by the end of the business day of the actual settlement date.
- 39.6 Where the *DSD* offers the services referred to in paragraph 2 of Article 40, it must ensure that the cash proceeds of securities settlements are available for recipients to use no later than by the end of the business day of the intended settlement date.
- 39.7 All securities transactions against cash between direct participants in a *Securities Settlement System* operated by a *DSD* and settled in that *Securities Settlement System* must be settled on a DVP basis.

ARTICLE 40 CASH SETTLEMENT

- 40.1 For transactions denominated in pounds sterling, a *DSD* must settle the cash payments of any *Securities Settlement System* it operates through accounts opened with the *Bank*, where practical and available.
- 40.2 Where it is not practical and available to settle in pounds sterling with the *Bank* or for transactions denominated in any currency other than sterling, a *DSD* may offer to settle the cash payments for any *Securities Settlement System* it operates through accounts opened with a credit institution with permission to accept deposits under Part 4A of *FSMA 2000*, or through its own accounts. If a *DSD* offers to settle in accounts opened with a credit institution or through its own accounts, it must do so in accordance with the provisions of Articles 54 to 60.
- 40.3 A *DSD* must ensure that any information provided to market participants about the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts is clear, fair and not misleading. A *DSD* must make available sufficient information to clients or potential clients to allow them to identify and evaluate the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts and must provide such information on request.

ARTICLE 41 PARTICIPANT DEFAULT RULES AND PROCEDURES

- 41.1 For each *Securities Settlement System* it operates, a *DSD* must have effective and clearly defined rules and procedures to manage the default of one or more of its participants.
- 41.2 [Note: left blank]
- 41.3 [Note: left blank]

ARTICLE 42 PRUDENTIAL REQUIREMENTS: GENERAL REQUIREMENTS

- 42.1 A *DSD* must adopt a sound risk-management framework for comprehensively managing legal, business, operational and other direct or indirect risks, including measures to mitigate fraud and negligence.

ARTICLE 43 LEGAL RISKS

- 43.1 For the purpose of its *SAN* and supervision, as well as for the information of its clients, a *DSD* must have rules, procedures, and contracts that are clear and understandable for all the *Securities Settlement Systems* that it operates and all other services that it provides.

- 43.2 A *DSD* must design its rules, procedures and contracts so that they are enforceable in all relevant jurisdictions, including in the case of the default of a participant.
- 43.3 A *DSD* conducting business in different jurisdictions must take all reasonable steps to identify and mitigate the risks arising from potential conflicts of law across jurisdictions.

ARTICLE 44 GENERAL BUSINESS RISK

- 44.1 A *DSD* must have appropriate management and control systems as well as IT tools in order to identify, monitor and manage general business risks.

ARTICLE 45 OPERATIONAL RISKS

- 45.1 A *DSD* must identify sources of operational risk, both internal and external, and minimise their impact through the deployment of appropriate IT tools, controls and procedures, including for all the *Securities Settlement Systems* it operates.
- 45.2 A *DSD* must maintain sufficiently robust IT and cyber resilience frameworks as well as incident reporting mechanisms, including to the *Bank*.
- 45.3 A *DSD* must also maintain controls to prevent, respond and recover from events that pose a significant risk of disrupting its operations, including those stemming from the use of or forms of recording securities using developing technology. This should include a business continuity and disaster recovery plan.
- 45.4 A *DSD* must ensure that the business continuity policy and disaster recovery plan referred to in paragraph 3 provides for the recovery of all transactions and participants' positions at the time of disruption to allow the participants of a *DSD* to continue to operate with certainty and to complete settlement on the scheduled date, including by ensuring that critical IT systems can promptly resume operations from the time of disruption.
- 45.5 **[Note:** left blank]
- 45.6 A *DSD* must identify, monitor and manage the risks that key participants in any *Securities Settlement Systems* it operates, as well as service and utility providers, and other *DSDs* or other market infrastructures might pose to its operations. It must, upon request, provide the *Bank* with information on any such risk identified.
- It must also inform the *Bank* without delay of any operational incidents resulting from such risks.
- 45.7 **[Note:** left blank]

ARTICLE 46 INVESTMENT POLICY

- 46.1 A *DSD* must hold its financial assets at any one or more of the following kinds of institution:
- (a) central banks;
 - (b) other *DSDs*
 - (b) credit institutions with permission to accept deposits under Part 4A of *FSMA 2000*;
 - (c) *CSDs* authorised in accordance with the *CSDR* and *third-country CSDs* recognised under the *CSDR*;
 - (d) third-country financial institutions that are subject to and comply with asset protection and prudential rules which are at least as stringent as those laid down in Directive 2013/36/EU UK law, Regulation (EU) No. 575/2013 and *CRR rules*, and which the *DSD* assesses as having—

- (i) robust accounting practices;
 - (ii) safekeeping procedures;
 - (iii) internal controls which ensure the full protection of those financial assets; and
 - (iv) low credit risk based upon an internal assessment by the *DSD*; or
- (e) *third-country CSDs* which comply with asset protection rules at least as stringent as those laid down in the *DSS CSDR*, its *SAN* and the *rules*, and which the *DSD* assesses as having—
- (i) robust accounting practices;
 - (ii) safekeeping procedures; and
 - (iii) internal controls which ensure the full protection of those financial assets.
- 46.2 A *DSD* must have prompt access to its assets, where required.
- 46.3 A *DSD* must invest its financial resources that are held in respect of its *DSD activities* in cash or in highly liquid financial instruments with minimal market and credit risk. Those investments must be capable of being liquidated rapidly with minimal adverse price effect.
- 46.4 For the purposes of paragraph 1 of Article 47, a *DSD* must not take into account the amount of its capital, including retained earnings and reserves which are not invested in accordance with paragraph 3.
- 46.5 A *DSD* must ensure that its overall risk exposure to any individual institution of a kind referred to in subparagraphs 1(ba) to 1(e) with which it holds its financial assets remains within acceptable concentration limits.
- 46.6 [Note: left blank]

ARTICLE 47 CAPITAL REQUIREMENTS

- 47.1 A *DSD* must ensure that its capital, together with retained earnings and reserves, is proportional to the risks stemming from the activities of the *DSD*. It must be at all times the greatest of the following:
- (a) an amount sufficient to ensure that the *DSD* is adequately protected against operational, legal, custody, investment and business risks so that the *DSD* can continue to provide services as a going concern; and
- an amount sufficient to ensure an orderly winding-down or restructuring of the *DSD*'s activities over an appropriate time span of at least six months under a range of stress scenarios,
- OR
- (b) an amount at least equal to the *DSD*'s total operational expenditure for six months.
- 47.2 A *DSD* must maintain a plan for the following:
- (a) the raising of additional capital should its equity capital approach or fall below the requirements laid down in paragraph 1; and
 - (b) ensuring the orderly winding-down or restructuring of its operations and services where the *DSD* is unable to raise new capital.
- A *DSD* must ensure that the plan is approved by the management body or an appropriate committee of the management body and updated regularly. A *DSD* must provide each update of the plan to the *Bank*.

47.2A This article applies to a *DSD* in respect of its *DSS activities*.

47.3 [Note: left blank]

ARTICLE 48 DSD LINKS

48.1 Before establishing a *DSD link* and on an ongoing basis once the *DSD link* is established, all *DSDs* concerned must identify, assess, monitor and manage all potential sources of risk for themselves and for their participants arising from the *DSD link* and take appropriate measures to mitigate them.

48.2 A *DSD* that intends to establish links must submit a request to vary its *SAN* to the *Bank* as required under subparagraph (e) of paragraph 1 of Article 19 or notify the *Bank* as required under paragraph 5 of Article 19.

48.3 A *DSD* must ensure that a link provides adequate protection to the *linked parties* and their participants, in particular as regards possible credits taken by *DSDs* and the concentration and liquidity risks as a result of the link arrangement.

A *DSD* must ensure that a link is supported by an appropriate contractual arrangement that sets out the respective rights and obligations of the *linked parties* and, where necessary, of the *linked parties'* participants.

Where a *linked party* is a CSD, the linked *DSD* must ensure the contractual arrangements require the CSD to adhere to the *CSDR* in respect of the *DSD link*, and to notify the *DSD* in the event of non-compliance or where the CSD anticipates non-compliance. The *DSD* must notify the *Bank* when it receives the notification from the CSD as soon as is practicable.

48.4 In the event of a provisional transfer of securities between *linked parties*, retransfer of securities prior to the first transfer becoming final is prohibited for a *DSD* and a *DSD* must ensure that it is prohibited by contractual arrangement with any *linked party* which is not a *DSD*.

48.5 A *DSD* that uses an *indirect link* or an intermediary to operate a *DSD link* with another *linked party* must measure, monitor, and manage the additional risks arising from the use of that *indirect link* or intermediary and take appropriate measures to mitigate them.

48.6 A *DSD* must have robust reconciliation procedures with *linked parties* to ensure that their respective records are accurate.

48.7 A *DSD* must ensure that *DSD links* permit DVP settlement of transactions between participants in *linked parties*, where practical and feasible. A *DSD* must notify the *Bank* of detailed reasons for any *DSD link* not allowing for DVP settlement.

48.8 For interoperable *Securities Settlement Systems* and *DSDs* that use a common settlement infrastructure, the *DSD* must establish, and through contractual arrangements ensures the *Securities Settlement System* establishes, identical moments of:

- (a) entry of transfer orders into the system; and
- (b) irrevocability of transfer orders.

The *DSDs* referred to in subparagraph (a) must ensure that the *DSDs* and *Securities Settlement Systems* use equivalent rules concerning the moment of finality of transfers of securities and cash.

48.9 *DSDs* must ensure through contractual arrangements that interoperable *DSD links* operating in the United Kingdom must be, where applicable, DVP-settlement supporting links.

48.10 [Note: left blank]

48.10A A *DSD* that has established or intends to establish a *DSD link* must comply with the *rules* in Chapter 3.

ARTICLE 54 CONDITIONS FOR PROVIDING BANKING-TYPE ANCILLARY SERVICES

- 54.1 A *DSD* must not itself provide any banking-type ancillary services set out in Section C of Chapter 4 unless it is a *type (a) banking services provider*.
- 54.2 If a *DSD* intends to settle the cash leg of all or part of any *Securities Settlement System* it operates in accordance with paragraph 2 of Article 40 or otherwise wishes to provide any banking-type ancillary services referred to in paragraph 1, either:
- (a) if the *DSD* wishes to provide such services itself, the *DSD* must be a *type (a) banking services provider* and must meet the conditions in paragraph 3; or
 - (b) if the *DSD* wishes to use for that purpose one or more credit institutions, the *DSD* must be a *type (b) banking services provider* and the *DSD* must ensure by contractual arrangements that the credit institution or credit institutions in question meets the conditions in paragraph 4.
- 54.3 The conditions referred to in subparagraph (a) of paragraph 2 are:
- (a) the *DSD* is a credit institution with permission to accept deposits under Part 4A of *FSMA* and has permission under Part 4A of *FSMA 2000* to carry on any other regulated activity which is carried on for the purposes of, or in connection with, such services;
 - (b) the *DSD* has met the requirements laid down in Article 59;
 - (c) **[Note: left blank]**
 - (d) the *DSD* has sufficient capital to reflect the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;
 - (e) the *DSD* reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk; and
 - (f) the *DSD* submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking-type ancillary services.
- In the case of conflicting provisions laid down in the *DSS CSDR*, its *SAN* and this Chapter, in Regulation (EU) No 575/2013, *CRR rules* and in Directive 2013/36/EU UK law, the *DSD* referred to in subparagraph (a) must comply with the stricter requirements on prudential supervision.
- 54.4 The conditions referred to in subparagraph (b) of paragraph 2 are:
- (a) the credit institution has permission to accept deposits under Part 4A of *FSMA 2000*;
 - (b) the credit institution meets the requirements laid down in Article 59;
 - (c) the credit institution does not itself carry out any of the core services referred to in Section A of Chapter 4;
 - (d) **[Note: left blank]**
 - (e) the credit institution has sufficient capital to reflect the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;

- (f) the credit institution reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk;
- (g) the credit institution submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking type ancillary services from within a separate legal entity; and
- (h) the credit institution agrees to provide to the *Bank* on demand such information as the *Bank* reasonably requires for the purpose of assessing whether the conditions in this paragraph 4 and Article 59, and any additional conditions in the *SAN* of the *type (b) banking services provider*, are met.

54.5 [Note: left blank]

54.6 [Note: left blank]

54.7 [Note: left blank]

54.8 [Note: left blank]

ARTICLE 57 WITHDRAWAL OF AUTHORISATION

- 57.1 (a) A *type (a) banking services provider* must establish, implement and maintain an adequate procedure ensuring the timely and orderly settlement and transfer of the assets of clients and participants to another settlement agent in the event that the *SAN* of the *type (a) banking services provider* is proposed to be varied so that it will no longer be permitted to provide the relevant banking-type ancillary services.
- (b) A *type (b) banking services provider* must ensure that the credit institution that it engages, establish, implement and maintain an adequate procedure ensuring the timely and orderly settlement and transfer of the assets of clients and participants to another settlement agent in the event that the *SAN* of the *type (b) banking services provider* is proposed to be varied so that it will no longer be permitted to use the credit institution for the provision of such services.

57.4 [Note: left blank]

57.5 [Note: left blank]

ARTICLE 59 PRUDENTIAL REQUIREMENTS APPLICABLE IN RESPECT OF CREDIT INSTITUTIONS OR DSDS REGARDING BANKING-TYPE ANCILLARY SERVICES

59.1 [Note: left blank]

59.2 [Note: left blank]

59.3 A *type (a) banking services provider* must comply with the following specific prudential requirements for the credit risks related to those services in respect of each *Securities Settlement System*:

- (a) it must establish a robust framework to manage the corresponding credit risks;
- (b) it must identify the sources of such credit risks, frequently and regularly, measure and monitor corresponding credit exposures and use appropriate risk-management tools to control those risks;
- (c) it must fully cover corresponding credit exposures to individual borrowing participants using collateral and other equivalent financial resources;

- (d) if collateral is used to manage its corresponding credit risk, it must accept highly liquid collateral with minimal credit and market risk; it may use other types of collateral in specific situations if an appropriate haircut is applied;
- (e) it must establish and apply appropriately conservative haircuts and concentration limits on collateral values constituted to cover the credit exposures referred to in subparagraph (c), taking into account the objective of ensuring that collateral can be liquidated promptly without significant adverse price effects;
- (f) it must set limits on its corresponding credit exposures;
- (g) it must analyse and plan for how to address any potential residual credit exposures, and adopt rules and procedures to implement such plans;
- (h) it must provide credit only to participants that have cash accounts with it; and
- (i) it must provide for effective reimbursement procedures of intra-day credit and discourage overnight credit through the application of sanctioning rates which act as an effective deterrent.

59.3A A *type (b) banking services provider* must ensure that the credit institution it engages in accordance with subparagraph (b) of paragraph 2 of Article 54 complies with the specific prudential requirements in paragraph 3 for the credit risks related to those services in respect of each *Securities Settlement System*.

59.4 A *type (a) banking services provider* must comply with the following specific prudential requirements for the liquidity risks relating to those services in respect of each *Securities Settlement System*:

- (a) it must have a robust framework and tools to measure, monitor, and manage its liquidity risks, including intra-day liquidity risks, for each currency of the *Security Settlement System* for which it acts as settlement agent;
- (b) it must measure and monitor on an ongoing and timely basis, and at least daily, its liquidity needs and the level of liquid assets it holds; in doing so, it must determine the value of its available liquid assets taking into account appropriate haircuts on those assets;
- (c) it must have sufficient liquid resources in all relevant currencies for a timely provision of settlement services under a wide range of potential stress scenarios including, but not limited to the liquidity risk generated by the default of at least one participant, including its parent undertakings and subsidiaries, to which it has the largest exposures;
- (d) it must mitigate the corresponding liquidity risks with qualifying liquid resources in each currency such as cash at the central bank of issue and at other creditworthy financial institutions, committed lines of credit or similar arrangements and highly liquid collateral or investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions and it must identify, measure and monitor its liquidity risk stemming from the various financial institutions used for the management of its liquidity risks;
- (e) where prearranged funding arrangements are used, it must select only creditworthy financial institutions as liquidity providers; it must establish and apply appropriate concentration limits for each of the corresponding liquidity providers including its parent undertaking and subsidiaries;
- (f) it must determine and test the sufficiency of the corresponding resources by regular and rigorous stress testing;
- (g) it must analyse and plan for how to address any unforeseen and potentially uncovered liquidity shortfalls, and adopt rules and procedures to implement such plans; and

- (h) [Note: left blank]
- (i) it must have prearranged and highly reliable arrangements to ensure that it can liquidate in a timely fashion the collateral provided to it by a defaulting client.
- (j) [Note: left blank]

59.4A A *type (b) banking services provider* must ensure that the credit institution it engages in accordance with subparagraph (b) of paragraph 2 of Article 54 complies with the specific prudential requirements in paragraph 4 for the liquidity risks related to those services in respect of each *Securities Settlement System*.

59.5 [Note: left blank]

ARTICLE 60 INFORMATION REGARDING BANKING-TYPE ANCILLARY SERVICES

60.1 [Note: left blank]

60.2 Where a *type (b) banking services provider* uses a credit institution in accordance with subparagraph (b) of paragraph (2) of Article 54.2(b), in view of the protection of the participants in the *Securities Settlement Systems* it operates, the *type (b) banking services provider* must ensure that it has access from the credit institution to all necessary information for the purpose of the *DSS CSDR*, its *SAN* and the *rules* and it must report any infringements thereof to the *Bank* as soon as is practicable.

CHAPTER 3: PROVISIONS OF COMMISSION DELEGATED REGULATION (EU) 2017/392 THAT APPLY AS RULES IN RELATION TO ARTICLE 48 OF CHAPTER 2 (DSD LINKS)

[**Note:** The following articles apply as *rules* to a *DSD* in respect of article 48 of Chapter 2, as modified in this Chapter - Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities.]

ARTICLE 36 DSD LINKS

- 36.1 Where the applicant *DSD* has established or intends to establish a *DSD link*, the request to vary the *SAN* referred to in paragraph 2 of Article 48 of Chapter 2 must contain the following information:
- (a) a description of the *DSD links* accompanied by assessments of potential sources of risks arising from those link arrangements by the applicant *DSD*;
 - (b) the expected or actual settlement volumes and values of the settlement performed within the *DSD links*;
 - (c) the procedures concerning the identification, assessment, monitoring and management of all potential sources of risk for the applicant *DSD* and for its participants arising from the link arrangement and the appropriate measures put in place to mitigate them;
 - (d) an assessment of the applicability of insolvency laws applicable to the operation of a *DSD link* and their implications for the applicant *DSD*; and
 - (e) other relevant information requested by the *Bank* for assessing the compliance of *DSD links* with the requirements provided in Article 48 of Chapter 2 and Articles 84 to 87 of this Chapter.

ARTICLE 84 CONDITIONS FOR THE ADEQUATE PROTECTION OF LINKED DSDS AND OF THEIR PARTICIPANTS

84.A1 [**Note:** left blank]

- 84.1 A *DSD* must establish and maintain a *DSD link* under the following conditions:
- (a) *requesting DSDs* must meet the requirements of the *linked party's* participation rules. *Receiving DSDs* must ensure the *linked party* meets the requirements of the *receiving DSDs'* participation rules;
 - (b) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* must conduct an analysis of the receiving *third-country CSD's* financial soundness, governance arrangements, processing capacity, operational reliability and any reliance on a third-party critical service provider;
 - (c) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* must take all necessary measures to monitor and manage the risks that are identified following the analysis referred to in subparagraph (b);
 - (d) where a request is made by a *DSD*, the *requesting DSD* must make the legal and operational terms and conditions of the link arrangement available to its participants allowing them to assess and manage the risks involved;

- (e) where a request is made by a *DSD* to a *third-country CSD*, before the establishment of a *DSD link* with a *third-country CSD*, the *requesting DSD* must perform an assessment of the local legislation applicable to the *third-country CSD*;
- (f) the linked *DSD* must ensure the confidentiality of information in connection to the operation of the link. The ability to ensure confidentiality must be evidenced by the information provided by the *DSD*, including any relevant legal opinions or arrangements;
- (g) the linked *DSD* must agree with the *linked parties* on aligned standards and procedures concerning operational issues and communication;
- (h) before the link becomes operational, requesting and *receiving DSDs* must:
 - (i) conduct end-to-end tests; and
 - (ii) establish an emergency plan, as part of the business continuity plan of the linked *DSD*, identifying the situations where the *Securities Settlement Systems* of the *linked parties* malfunction or break down, and provide for the remedial actions planned if those situations occur;
- (i) all link arrangements must be reviewed at least annually by *receiving DSDs* and *requesting DSDs* taking into account all relevant developments, including market and IT developments, as well as any developments in local legislation referred to in subparagraph (e); and
- (j) for *DSD links* that do not provide for DVP settlement, the annual review referred to in subparagraph (i) must also include an assessment of any developments that may allow supporting DVP settlement.

For the purposes of subparagraph (e), in performing the assessment, the *DSD* must ensure that the securities maintained in the *Securities Settlement System* operated by the *third-country CSD* benefit from a level of asset protection comparable to the one ensured by the rules applicable to the securities settlement system operated by the *requesting DSD*. The *requesting DSD* must require from the *third-country CSD* a legal assessment addressing the following issues:

- (i) the entitlement of the *requesting DSD* to the securities, including the law applicable to proprietary aspects, the nature of the rights of the *requesting DSD* on the securities, the possibility of encumbering the securities; and
- (ii) the impact of insolvency proceedings opened against the *third-country CSD* on the *requesting DSD* regarding the segregation requirements, settlement finality, procedures and time limits to claim the securities in the relevant third country.

84.2 In addition to the conditions referred to in paragraph 1, a *DSD* must establish and maintain a *DSD link* providing for DVP settlement under the following conditions:

- (a) where a request is made by a *DSD*, the *requesting DSD* must assess and mitigate the additional risks resulting from the settlement of cash;
- (b) a *DSD* that is not authorised to provide banking-type ancillary services in accordance with Article 54 of Chapter 2, and which is involved in the execution of cash settlement on behalf of its participants, must not receive credit and must use prefunding mechanisms covered by its participants in relation to the DVP settlements to be processed through the link;
- (c) a *DSD* that uses an intermediary for the cash settlement must ensure that the intermediary performs that settlement efficiently. The *DSD* must conduct yearly reviews of the arrangements with that intermediary.

84.3 In addition to the conditions referred to in paragraphs 1 and 2, a *DSD* must establish and maintain an *interoperable link* under the following conditions:

- (a) the linked *DSD* must agree with the *linked parties* on equivalent standards concerning reconciliation, opening hours for the processing of the settlement and of corporate actions and cut-off times;
- (b) the linked *DSDs* must establish with the *linked parties* equivalent procedures and mechanisms for transmission of settlement instructions to ensure a proper, secure and straight through processing of settlement instructions;
- (c) where an *interoperable link* supports DVP settlement, the linked *DSDs* must reflect at least daily and without undue delay the results of the settlement in their books;
- (d) the linked *DSDs* must agree with the *linked parties* on equivalent risk-management models; and
- (e) the linked *DSDs* must agree with the *linked parties* on equivalent contingency and default rules and procedures referred to in Article 41 of Chapter 2.

ARTICLE 85 MONITORING AND MANAGEMENT OF ADDITIONAL RISKS RESULTING FROM THE USE OF INDIRECT LINKS OR INTERMEDIARIES TO OPERATE DSD LINKS

85.1 In addition to complying with the requirements under Article 84 of this Chapter, where a *DSD* is a *requesting DSD* that uses an *indirect link* or an intermediary to operate a *DSD link*, it must ensure that:

- (a) the intermediary is one of the following:
 - (i) a credit institution with permission to accept deposits under Part 4A of *FSMA 2000* that complies with the following requirements:
 - [Note: left blank]
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,
 - it has low credit risk, which must be established in an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;
 - (ii) a third-country financial institution that complies with the following requirements:
 - it is subject to and complies with prudential rules at least equivalent to those laid down in Regulation (EU) No 575/2013 and *CRR rules*,
 - it has robust accounting practices, safekeeping procedures, and internal controls,
 - [Note: left blank]
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,
 - it has low credit risk, based upon an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;
- (b) the intermediary complies with the rules and requirements of the *requesting DSD*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;

- (c) the intermediary ensures the confidentiality of information concerning the operation of the *DSD link*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;
- (d) the intermediary has the operational capacity and systems for:
 - (i) handling the services provided to the *requesting DSD*;
 - (ii) sending the *DSD* any information relevant to the services provided in relation to the *DSD link* in a timely manner;
 - (iii) complying with the reconciliation measures referred to in Article 86 of this Chapter;
- (e) the intermediary adheres to and complies with the risk-management policies and procedures of the *requesting DSD* and it has an appropriate risk-management expertise;
- (f) the intermediary has put in place measures that include business continuity policies and associated business continuity and disaster recovery plans, to ensure the continuity of its services, the timely recovery of its operations and the fulfilment of its obligations in events that pose a significant risk of disrupting its operations;
- (g) the intermediary holds sufficient financial resources to fulfil its obligations towards the *requesting DSD* and to cover any losses for which it may be held liable;
- (h) an individually segregated account at the *receiving DSD* is used for the operations of the *DSD link*;
- (i) the condition referred to in subparagraph (e) of paragraph 1 of Article 84 is fulfilled;
- (j) the *requesting DSD* is informed of the continuity arrangements between the intermediary and the *receiving DSD*; and
- (k) the proceeds from settlement are promptly transferred to the *requesting DSD*.

For the purposes of the first indent in subparagraph (a)(i), the third indent in subparagraph (a)(ii) and subparagraph (h), the *requesting DSD* must ensure that it can have access to the securities held in the individually segregated account at any point in time. Where an individually segregated account at the *third-country CSD* is however not available for the operations of a *DSD link* established with a *third-country CSD*, the *requesting DSD* must inform the *Bank* about the reasons justifying the unavailability of individually segregated accounts and must provide it with the details on the risks resulting from the unavailability of individually segregated accounts. The *requesting DSD* must in any case ensure an adequate level of protection of its assets held with the *third-country CSD*.

85.2 In addition to complying with the requirements under paragraph 1, when a *requesting DSD* uses an intermediary to operate a *DSD link* and that intermediary operates the securities accounts of the *requesting DSD* on its behalf in the books of the *linked party*, the *requesting DSD* must ensure that:

- (a) the intermediary does not have any entitlement to the securities held;
- (b) the account in the books of the *linked party* is opened in the name of the *requesting DSD* and the liabilities and obligations as regards the registration, transfer and custody of securities are only enforceable between both *linked parties*; and
- (c) the *requesting DSD* is able to immediately access the securities held with the *linked party*, including in the event of a change or insolvency of the intermediary.

85.3 *Requesting DSDs* referred to in paragraphs 1 and 2 must perform a yearly due diligence to ensure that the conditions referred to therein are fulfilled.

ARTICLE 86 RECONCILIATION PROCEDURES FOR LINKED DSDS

86.1 A *DSD* must ensure that the reconciliation procedures referred to in paragraph 6 of Article 48 of Chapter 2 include the following measures:

- (a) *receiving DSDs* must transmit to the *linked party* daily statements with information specifying the following, per securities account and per securities issue:
 - (i) the aggregated opening balance;
 - (ii) the individual movements during the day;
 - (iii) the aggregated closing balance;
- (b) *requesting DSDs* must conduct a daily comparison of the opening balance and the closing balance communicated to it by the *linked party* or by the intermediary with the records maintained by the *requesting DSD* itself.

In the case of an *indirect link*, the daily statements referred to in subparagraph (a) of this paragraph 1 must be transmitted through the intermediary referred to subparagraph (a) of paragraph 1 of Article 85 of this Chapter.

86.2 Where a *linked party* suspends a securities issue for settlement, all *DSDs* that are participants of or have an *indirect link* with that *linked party*, including in the case of *interoperable links*, must subsequently suspend the securities issue for settlement.

Where intermediaries are involved in the operation of *DSD links*, the *DSDs* concerned must establish appropriate contractual arrangements with those intermediaries in order to ensure compliance with the first subparagraph.

86.3 In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, settlement instructions in the relevant securities issues must not be processed by the *investor DSD* until the corporate action has been fully processed by the other *linked party*.

In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, the *investor DSD* must not update the securities accounts that it maintains to reflect the corporate action until the corporate action has been fully processed by the other *linked party*.

An *issuer DSD* must ensure the timely transmission to all its participants, including investor *linked parties*, of information on the processing of corporate actions for a specific securities issue. *Investor DSDs* must in turn transmit the information to their participants. That transmission must include all necessary information for investor *linked parties* to adequately reflect the outcome of those corporate actions in the securities accounts they maintain.

ARTICLE 87 DVP SETTLEMENT THROUGH DSD LINKS

87.1 Delivery versus payment (DVP) settlement is practical and feasible for the purposes of paragraph 7 of Article 48 of Chapter 2 where:

- (a) there is a market demand for DVP settlement evidenced through a request from any of the user committees of one of the *linked parties*;
- (b) the *linked parties* may charge a reasonable commercial fee for the provision of DVP settlement, on a cost-plus basis, unless otherwise agreed by the other *linked party*; and

- (c) there is a safe and efficient access to cash in the currencies used by the *receiving DSD* for settlement of securities transactions of the *requesting DSD* and its participants.

CHAPTER 4: SERVICES

A SECTION A - CORE SERVICES

- A.1 Initial recording of securities in book-entry forms or forms of recording of securities using developing technology ('notary service');
- A.2 Providing and maintaining securities accounts at the top tier level ('central maintenance service');
- A.3 Operating a *Securities Settlement System* ('settlement service').

B SECTION B - NON-BANKING-TYPE ANCILLARY SERVICES THAT DO NOT ENTAIL CREDIT OR LIQUIDITY RISKS

Services provided that contribute to enhancing the safety, efficiency and transparency of the securities markets, which may include but are not restricted to the following:

- B.1 Services related to the settlement service, such as:
 - (a) Organising a securities lending mechanism, as agent among participants of a *Securities Settlement System*;
 - (b) Providing collateral management services, as agent for participants in a *Securities Settlement System*;
 - (c) Settlement matching, instruction routing, trade confirmation, trade verification.
- B.2 Services related to the notary and central maintenance services, such as:
 - (a) Services related to shareholders' registers;
 - (b) Supporting the processing of corporate actions, including tax, general meetings and information services;
 - (c) New issue services, including allocation and management of ISIN codes and similar codes;
 - (d) Instruction routing and processing, fee collection and processing and related reporting.
- B.3 Establishing *DSD links*, providing, maintaining or operating securities accounts in relation to the settlement service, collateral management, other ancillary services.
- B.4 Any other services, such as:
 - (a) Providing general collateral management services as agent;
 - (b) Providing regulatory reporting;
 - (c) Providing information, data and statistics to market/census bureaus or other governmental or inter-governmental entities;
 - (d) Providing Information Technology services.

C SECTION C – BANKING-TYPE ANCILLARY SERVICES

- C.1 Banking-type services directly related to core or ancillary services listed in Sections A and B, such as:
 - (a) Providing cash accounts to, and accepting deposits from, participants in a *Securities Settlement System* and holders of securities accounts, within the meaning of point 1 of Annex I to Directive 2013/36/EU

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- (b) Providing cash credit for reimbursement no later than the following business day, cash lending to pre-finance corporate actions and lending securities to holders of securities accounts, within the meaning of point 2 of Annex I to Directive 2013/36/EU;
- (c) Payment services involving processing of cash and foreign exchange transactions, within the meaning of regulation 2 of the Payment Services Regulations 2017;
- (d) Guarantees and commitments related to securities lending and borrowing, within the meaning of point 6 of Annex I to Directive 2013/36/EU;
- (e) Treasury activities involving foreign exchange and transferable securities related to managing participants' long balances, within the meaning of points 7(b) and (e) of Annex I to Directive 2013/36/EU.

CHAPTER 5: RULES ON THE SUBJECT MATTER OF THE UNCERTIFICATED SECURITIES REGULATIONS

[**Note:** in Chapter 5, *rules* are termed ‘regulations’ or ‘paragraph’, depending on the context, in keeping with the *Uncertificated Securities Regulations*. References to, for example regulation 2.1, may also be written as 2(1).]

REGULATION 3 DVP SETTLEMENT THROUGH DSD LINKS

3.2 For the purpose of the *DSS USRs* and this Chapter 5 –

- (a) a dematerialised instruction is properly authenticated if it complies with the specifications referred to in paragraph 5.3 of Schedule 1 of Chapter 5; or if it was given, and not withdrawn, before the *Uncertificated Securities Regulations* came into force and was properly authenticated within the meaning of regulation 3.2(a) of the 1995 Regulations;
- (b) a dematerialised instruction is attributable to a person if it is expressed to have been sent by that person, or if it is expressed to have been sent on behalf of that person, in accordance with the rules and specifications referred to in paragraph 5.4 of Schedule 1 of Chapter 5; and a dematerialised instruction may be attributable to more than one person.

SCHEDULE 1

PARAGRAPH 5

5.1 A relevant system must satisfy the requirements of subparagraphs (3) to (6)

5.2 [**Note:** left blank]

5.3 Each dematerialised instruction must be authenticated –

- (a) in accordance with the specifications of the Operator, and those specifications must provide that each dematerialised instruction is identifiable as being from the Operator or of a particular system-participant; or
- (b) if it is sent to the Operator by, or by the Operator to, a depository, a clearing house or an exchange, in accordance with specifications of that depository, clearing house or exchange to which the Operator has agreed and which provide that each dematerialised instruction—
 - (i) is identifiable as being from the Operator or of the depository, clearing house or exchange which sent it.

5.4 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), express by whom it has been sent and, where relevant, on whose behalf it has been sent.

5.5 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), indicate—

- (a) where it is sent to a system-participant or the Operator, that it is addressed to that system-participant or the Operator;
- (b) where it is sent to a person who is using the facilities of a sponsoring system-participant to receive dematerialised instructions, that it is addressed to that person and the sponsoring system-participant; and

(c) where it is sent to the Operator in order for him to send an Operator-instruction to a system-participant, that it is addressed to the Operator, to the system-participant and, if the system-participant is acting as a sponsoring system-participant, to the relevant person on whose behalf the sponsoring system-participant receives dematerialised instructions;

5.6 The relevant system must minimise the possibility for a system-participant to send a dematerialised instruction on behalf of a person from whom he has no authority.

5.7 For the purposes of this paragraph –

“clearing house” means a body or association –

- (a) which is a recognised clearing house within section 285(1)(b) of *FSMA 2000*;
- (b) which is authorised under *FSMA 2000* to provide clearing services in the United Kingdom;
- (ba) which is a third-country central counterparty within the meaning of section 285(1) of the 2000 Act; or
- (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government;

“depository” means a *DSD*, *CSD* or *third-country CSD* within the meaning of the *CSDR* as amended from time to time or a body or association carrying on business outside the United Kingdom with whom an Operator has made arrangements—

- (a) to enable system-members to hold (whether directly or indirectly) and transfer title to securities (other than participating securities) by means of facilities provided by that body or association; or
- (b) to enable that body or association to permit persons to whom it provides services in the course of its business to hold (whether directly or indirectly) and transfer title to participating securities by means of the Operator’s relevant system; and

“exchange” means a body or association –

- (a) which is a recognised investment exchange within section 285(1)(a) of the 2000 Act;
- (b) which is authorised under that Act to provide a facility for the matching and execution of transactions in securities in the United Kingdom; or
- (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government.

PARAGRAPH 12

12 A relevant system must be able to permit each participating issuer to inspect the entries from time to time appearing in an Operator register of securities (other than an Operator register of eligible debt securities) relating to any participating security issued by him.

PARAGRAPH 13

13 A relevant system must be able to establish, where there is a transfer of uncertificated units of a security to a system-member for value, that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value.

PARAGRAPH 14

- 14.1 A relevant system must ensure that the Operator-system is able to generate Operator-instructions—
- (a) requiring participating issuers to amend the appropriate issuer registers of securities kept by them;
 - (b) informing participating issuers in a way which enables them to amend the appropriate records of securities kept by them; and
 - (c) informing settlement banks of their payment obligations.
- 14.2 The requirements set out in Paragraph 14.1(a) and Paragraph 14.1(b) shall not apply in circumstances where only wholly dematerialised securities are evidenced and transferred on the relevant system.

PARAGRAPH 15

- 15 A relevant system must—
- (a) enable a system-member—
 - (i) to grant authority to a sponsoring system-participant to send properly authenticated dematerialised instructions on his behalf; and
 - (ii) to limit such authority by reference to the net value of the units of the securities to be transferred in any one day; and
 - (b) prevent the transfer of units in excess of that limit.

PARAGRAPH 16

- 16 For the purposes of paragraph 15(a)(ii), once authority is granted pursuant to a system charge (within the meaning of regulation 3 of the Financial Markets and Insolvency Regulations 1996) a limit of such authority must not be imposed or changed without the consent of the donee of that authority.

PARAGRAPH 18

- 18 A relevant system must enable system-members—
- (a) to change the form in which they hold units of a participating security; and
 - (b) where appropriate, to require participating issuers to issue certificates relating to units of a participating security held or to be held by them.

PARAGRAPH 19

- 19 Paragraph 18 shall not apply to any wholly dematerialised security.

PARAGRAPH 20

- 20 A relevant system must comprise procedures which provide that it responds only to properly authenticated dematerialised instructions which are attributable to a system-user or an Operator.

PARAGRAPH 21

- 21.1 Subject to subparagraphs (2) to (5), a relevant system must comprise procedures which provide that an Operator only registers a transfer of title to uncertificated units of a security or generates an Operator-instruction requiring a participating issuer to register such a transfer, and only generates an Operator-instruction informing a settlement bank of its payment obligations in respect of such a transfer, if—
- (a) it has –
 - (i) received a system-member instruction which is attributable to the transferor; or
 - (ii) been required to do so by a court in the United Kingdom or by or under an enactment;
 - (b) it has –
 - (i) established that the transferor has title to such number of units as is in aggregate at least equal to the number to be transferred; or
 - (ii) established that the transfer is one of two or more transfers which may be registered in accordance with regulation 30.2 of the *DSS USRs*;
 - (c) in the case of a transfer to a system-member for value, it has established that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value; and
 - (d) the transfer is not in excess of any limit which by virtue of paragraph 15(a)(ii) the transferor has set on an authority given by him to a sponsoring system-participant.
- 21.2 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in accordance with procedures agreed between the Operator and the transferor to enable the transfer by means of a relevant system of uncertificated units of a security provided that such transfer is for the purpose of, or relates to, facilitating the provision of financial credit or financial liquidity to the transferor by a settlement bank, the Bank of England, the European Central Bank, any other central bank, or any other body having functions as a monetary authority.
- 21.3 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend (including by means of a correcting or reversing transaction) an Operator register of securities; and
 - (b) an Operator-instruction requiring a participating issuer to register a transfer of uncertificated units of a security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,
- if necessary to correct an error and if in accordance with the rules made and practices instituted by the Operator in order to comply with the *rules* set out in this Chapter 5 and the provisions of Schedule 1 to the *DSS USRs*.
- 21.4 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend an Operator register of securities; and
 - (b) an Operator-instruction requiring a participating issuer to register a transfer of units of a wholly dematerialised security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,
- if necessary to effect a transfer of such units, on the termination of participation in the relevant system by the system-member by whom those units are held and if in accordance with the rules made and practices instituted by the Operator in order to comply with this Schedule, to a person nominated under the Operator's rules.

21.5 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in order to give effect to the procedures referred to in subparagraph 3 or 4.

PARAGRAPH 22

22.1 Subject to subparagraph 2, a relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, is generated only if it has—

- (a) received a properly authenticated dematerialised instruction attributable to the system-member having the right, privilege or benefit requiring the Operator to generate an Operator-instruction to the participating issuer; or
- (b) been required to do so by a court in the United Kingdom or by or under an enactment.

22.2 A relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, may be generated if necessary to correct (including by means of a correcting or reversing transaction) an error and if in accordance with the rules made and practices instituted by an Operator in order to comply with the *rules* set out in this Chapter 5 and the provisions of Schedule 1 to the *DSS USRs*.

PARAGRAPH 25

25 An Operator's rules and practices-

- (a) **[Note: left blank]**
- (b) must make provision as to the manner in which a system-member or the relevant participating issuer may change the form in which that system-member holds units of a participating security (other than a wholly dematerialised security);
- (c) must make provision for a participating issuer to cease to participate in respect of a participating security so as—
 - (i) to minimise so far as practicable any disruption to system-members in respect of their ability to transfer the relevant security; and
 - (ii) to provide the participating issuer with any relevant information held by the Operator relating to the uncertificated units of the relevant security held by system-members;
- (d) **[Note: left blank]**
- (e) must make provision—
 - (i) as to which of the Operator's records are to constitute an Operator register of securities in relation to a participating security, or a participating security of a particular kind; and
 - (ii) as to the times at which, and the manner in which, a participating issuer may inspect an Operator register of securities (other than an Operator register of eligible debt securities) in accordance with paragraph 12;
- (f) if they make provision for the designation of a subsidiary undertaking as a relevant nominee, must require that the relevant nominee maintain adequate records of—
 - (i) the names of the persons who have an interest in the securities it holds; and
 - (ii) the nature and extent of their interests; and

- (g) must make provision for the authentication by the Operator of any written notification given under regulation 25.3 or 32.2(c) of the *DSS USRs*.

PARAGRAPH 26

- 26 An Operator's rules and practices must require—
- (a) that each system-participant is able to send and receive properly authenticated dematerialised instructions;
 - (b) that each system-member has arrangements—
 - (i) for properly authenticated dematerialised instructions attributable to him to be sent;
 - (ii) for properly authenticated dematerialised instructions to be received by or for him; and
 - (iii) with a settlement bank for payments to be made, where appropriate, for units of a security transferred by means of the relevant system; and
 - (c) that each participating issuer is able to respond with sufficient speed to Operator-instructions.

SCHEDULE 4

PARAGRAPH 4

- 4.1 In relation to every participating issuer which is a company, an Operator of a relevant system must, in respect of any class of shares which is a participating security for the purposes of that system, enter on an Operator register of members—
- (a) the names and addresses of the members who hold uncertificated shares in the company;
 - (b) with those names and addresses a statement of the uncertificated shares held by each member and, where the company has more than one class of issued uncertificated shares, distinguishing each share by its class; and
 - (c) where the company has converted any of its shares into stock and given notice of the conversion to the registrar of companies, the Operator register of members must show the amount and class of uncertificated stock held by each member, instead of the amount of shares and the particulars relating to shares specified in subparagraph (b).
- 4.2 An entry relating to a member of a company who has ceased to hold any uncertificated shares in the company may be removed from the Operator register of members after the expiration of 10 years beginning with the day on which he ceased to hold any such shares.
- 4.3 For the purposes of this paragraph references to an Operator register of members shall not be taken to include an overseas branch register.
- 4.4 Members of a company who hold shares in uncertificated form may not be entered as holders of those shares on an overseas branch register.

PARAGRAPH 12

- 12.1 Where an Operator of a relevant system is required to maintain an Operator register of general public sector securities that register must comprise the following particulars which the Operator must enter on it, namely—
- (a) the names and address of the persons holding units of the relevant participating security in uncertificated form; and

(b) how many units of that security each such person holds in that form.

12.2 [Note: left blank]

12.3 [Note: left blank]

PARAGRAPH 14

14.1 Where an Operator of a relevant system is required to maintain an Operator register of corporate securities, that register must comprise the following particulars which the Operator must enter on it, namely—

(a) the names and addresses of the persons holding units of the relevant participating security in uncertificated form; and

(b) how many units of that security each such person holds in that form.

14.2 [Note: left blank]