DRAFT Gate 2 application process and questionnaire for Sandbox Entrants

The Bank's Gate 2 application process for DSDs will consist of the following sequential steps:

1. Self-attestation: Entrants will be asked to provide a line-by-line attestation against each provision of the Bank of England Digital Securities Sandbox Rules Instrument - Gate 2 rules. For each rule, firms will be asked to provide a short explanation of how they comply with each rule, but they will not be asked for supporting documentation at this stage.

2. Initial questionnaire: These initial questions are intended to help us understand firms' business and operating model and the risks they may involve. We are interested in understanding how firms plan to address those risks, and how the risks are affected by the use of developing technologies.

   In assessing firms' responses, the Bank will focus on those areas set out in the DSS guidance document under 'The Bank's approach to supervisory assurance at Gate 2'. Firms' responses, along with the self-attestation, will guide our follow-up engagement. This will help us gain a better understanding of firms' operations in the DSS and assess each firm's eligibility to progress through Gate 2.

3. Targeted follow-up questions: These will be sent to firms after reviewing the responses to the self-attestation and initial questionnaire, based on the risks identified. This will also include targeted follow-up meetings with key personnel/subject matter experts, following the review of materials submitted.

Although the Bank has not set a time by which the approval of an application at Gate 2 must be determined, it aims to assess DSD applications against Gate 2 rules within 4 months of receiving applications. However, if applications are incomplete, of poor quality, or if applicants delay in providing further information required for the assessment, these timeframes will be longer. Submitting a high-quality, well-considered application and maintaining timely, open communication is the best way to ensure the assessment progresses within the suggested timeframes.

DRAFT Initial questionnaire for Sandbox Entrants

Strategy – what is your firm's overall strategy, including your strategic goals and reasons for establishing the firm?
Strategy – please give an overview of the firm's systems architecture. How are you using developing technologies within your business model? Please explain any unique features of these technologies and their proposed key benefits to your operations.
Governance – please provide a description and organogram of your proposed governance arrangements, including Board (or senior governance arrangements if no Board exists), management committees and senior leadership team.
Governance – what is the background and experience of the members of the Board and your senior leadership team? Please provide CVs.

Limits – how will you monitor and enforce compliance with the DSS limits as specified in your SAN, using technology and governance controls? How are you planning to report and respond to any breaches?

Wind-down – please attach your capital assessment and wind-down plans, including:
- Where applicable, policies and procedures for maintaining or transferring ownership records in the event of irrecoverable system failure.
- Stressed scenarios underpinning the wind-down plans, with the rationale for choosing these scenarios.
- An explanation of how the firm will wind down using available financial resources.
- How early warning signs, triggers and risk metrics are integrated within the firm's risk management framework.
- An estimate of the costs for delivering an orderly wind-down.
- How the firm will manage claims and ensure they are resolved in an orderly manner, with cross-references to participant rules where appropriate.

Operational Risks – please describe your approach to business continuity and IT disaster recovery including scenario planning.

Operational Risks – please outline the key elements of your disaster recovery plans for extreme scenarios, such as a severe operational outage. Can you confirm whether the firm has backup systems in place for critical business services?

Operational Risks – what is your approach to technology testing, including:
- Testing strategy and the types of tests conducted
- Entry, exit and success criteria for each testing phase
- Governance structures around each testing phase
- Completed test reports

Risk Strategy – please provide a copy of your risk management framework, outlining your firm's high-level risk strategy. If applicable, explain how the Board will monitor and oversee risks.

Risk Management - how do you plan to structure your risk management approach? If you plan to implement a 'three lines of defence' model, please explain how each line will function, including the roles and responsibilities within each line.

Additionally, indicate whether any components of risk management will be outsourced, including the use of third-party services or software. If so, please explain how you will retain oversight and management of key risks, such as cyber risk management and enterprise risk management.

Risk Management – please provide your risk register and control library (or equivalent), including risk ratings and action plans to bring risks within your risk appetite.

The risk register should identify key cyber and technology-related risks, such as DLT-specific risks, and consider any potential channels of cyber contagion or risks of asset loss and record corruption. Additionally, explain the specific measures you will take to manage and mitigate these risks.

Risk Management – which recognised industry standards or certifications will you use to benchmark your operating systems against?

Risk Management - have you developed a maturity assessment model to assess and improve your capabilities? If so, please explain how it measures your current maturity level and identifies strengths and areas for improvement. Describe any key areas you have identified for improvement.

Participants – please outline the types of participants that will access your platform(s) and the key participant rules and requirements for each functionality you plan to offer within the DSD.

Participants – how do you plan to manage Anti-Money Laundering (AML) risks related to the participant requirements for each type of functionality you plan to operate within the DSD? Please identify where AML risks may emerge for the firm or participants and outline how you intend to mitigate these risks.

Conflicts of Interest – please explain your policies for identifying and managing conflicts of interest, and how these policies may evolve as your firm scales its activities.

Conflicts of Interest – please provide an up-to-date summary of any existing conflicts of interest at the time of application. This can include a copy of your conflicts register (if available) or a written summary.

Breach Reporting – please outline your key policies for identifying and managing potential infringements of the DSS rules or your SAN. Additionally, explain how you ensure that employees can report breaches directly to the Bank if they are not comfortable reporting them through the firm's internal processes.

Self-attestation - please explain the steps and governance you have undertaken in preparing the Gate 2 self-attestation and initial questionnaire.