Bank of England

Digital Securities Sandbox (DSS)

Gate 2 Webinar



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Welcome and Introduction

Justin Jacobs

What Will the Gate 2 Webinar Cover?

What we will cover today:

- Overview of Gate 2 in the Digital Securities Sandbox (DSS)
- How firms apply to enter Gate 2
- How the Bank of England will assess applications
- What happens after firms submit a Gate 2 application?
- Q&A session

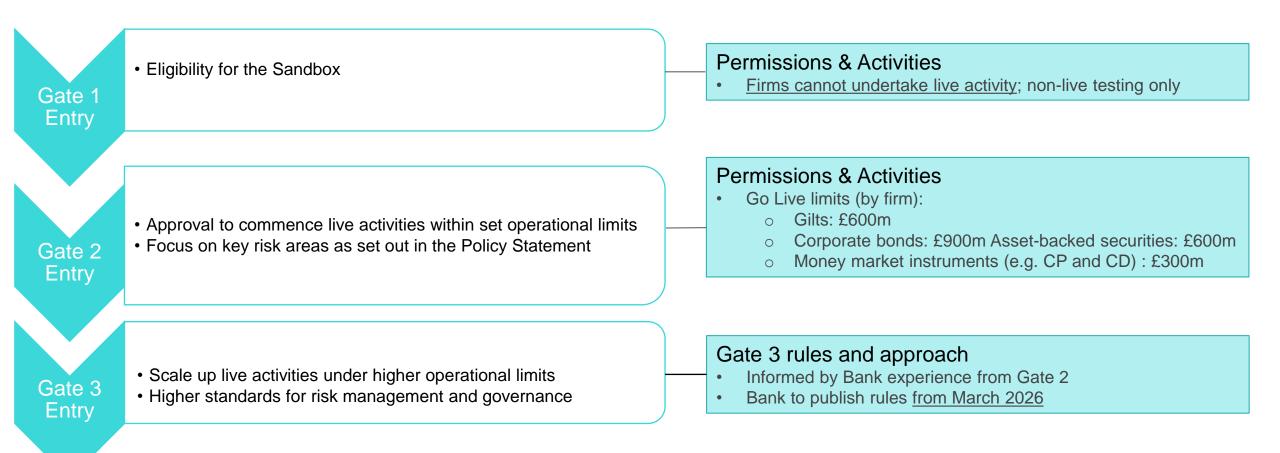
The webinar follows the **Gate 1 webinar held in November 2024** which can be viewed here - Digital Securities Sandbox (DSS) - Gate 1 webinar

Further details on the DSS are available on the **Bank of England website -** <u>Gate 2: Who is eligible</u> and how to apply | Bank of England

Advancing through the DSS: Gate Structure & Expectations



Advancing through the DSS: Overview of Gates & Progression



How Do You Apply to Gate 2?



Gate 2 Application: Required Forms & Additional Permissions

Once a firm has passed Gate 1 and received a SAN, it should begin preparing its Gate 2 DSD application.

DSD Application Forms (available here - Bank of England website)

1. Gate 2 Questionnaire

- Firm's business and operating model at Gate 2
- 2. Cyber Resilience Questionnaire
 - Self-assessment tool of cyber resilience
- 3. Self-Attestation Spreadsheet
 - Confirmation of compliance with DSS Gate 2 rules
- 4. CEO & Chair Letter confirming self-attestation
 - Approval of compliance and adherence to Gate 2 rules

Additional Considerations:

- Some activities may require additional regulatory permissions, such as Part 4A authorisation under the Financial Services and Markets Act 2000
- Firms applying for <u>Settlement Finality Regulation</u> (SFR) designation should submit alongside the Gate 2 application

What Makes a Strong Gate 2 Application?



Key Considerations for a Successful Application

Overall

- Application, in plain language, that clearly identifies risks inherent in business and operating model and explains how these risks are mitigated
- Maintaining timely and open communication with the Bank throughout the process

Adhering to Limits

• Ability to monitor, detect, prevent and, where necessary respond, to limit breaches.

Limiting cyber contagion

- Identify cyber contagion risks and mitigation strategies
- Minimal cyber security risk management approach

Asset Protection

- Maintain accurate ownership records and mitigate asset loss
- Ensure safe return of assets in case of disruption or wind-down

Orderly wind-down

 Demonstrate sufficient resources (e.g. capital and staff) to facilitate the protection and orderly return of client assets in a wind down scenario

DSS Cyber Resilience Questionnaire (CQUEST): Purpose & Key Considerations

What is CQUEST?

- Self-assessment for cyber resilience
- Adapted version used by the Bank, PRA, and FCA

Key Considerations

- Provide a rationale for each response in CQUEST
- Not expected to rank 'A' across all areas focus is on current cyber capabilities
- Focus is on **preventing systemic risks** (e.g. cyber contagion)

Tips for Completing CQUEST:

- Justify why you have given yourself a specific rating
- Outline planned improvements where applicable
- Consider any **unique factors** (e.g. DLT-based models)
- Use **supporting guidance** to help responses

Self-Attestation: Purpose & Key Considerations

What is Self-Attestation?

• Line-by-line attestation against the DSS Gate 2 rules

Key Considerations

- Firms should state how they comply with each Gate 2 rule
- If not fully complaint at the time of submission, indicate:
 - o Outstanding areas
 - Planned actions to achieve compliance
- **CEO (and Chair, if applicable) letter required**

Tips for Completing Self-Attestation

• Outline any specific processes, controls, or governance measures

Assessing Retail Business Models at Gate 2

Regulatory Expectations

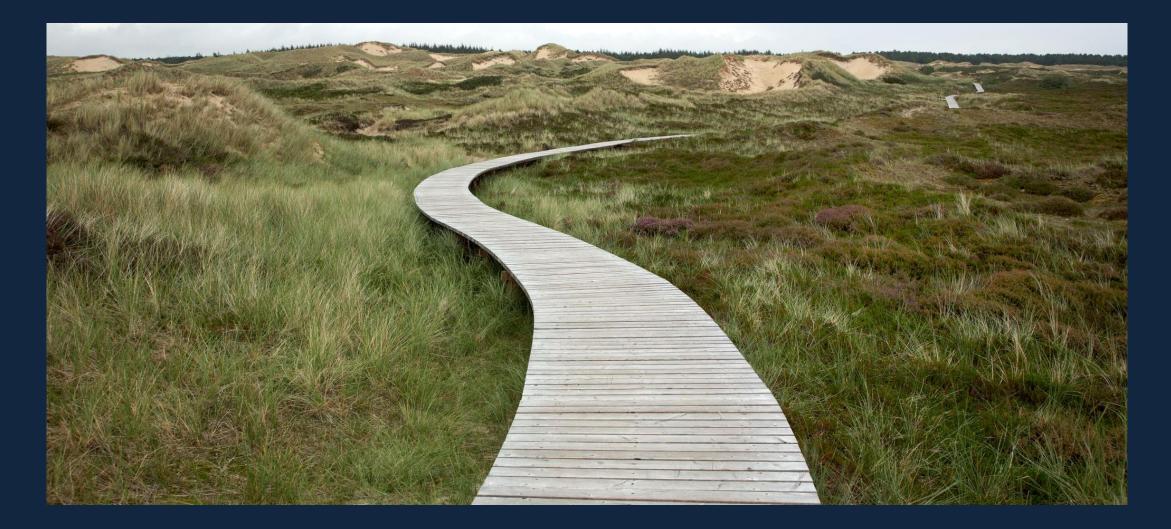
- Enhanced risk & control measures required
- Retail access assessed on a case-by-case basis

Key Risk Controls

- Loss mitigation ensure full asset & ownership record recovery
- Clear settlement process secure on-chain transactions
- Anti-money laundering (AML) controls
- Client communications

• Regulatory approvals for retail models will take longer due to additional evaluations

Gate 2 Journey: What to Expect



Gate 2: What to Expect

Pre-Application Engagement

• Up to **3 hours** of engagement via meetings or calls with DSS Supervision team

Application Review & Timelines

• Expected timeline ~4 months (excludes firm's preparation & follow-ups)

After Submission

- Ongoing engagement
- Requests for additional clarification: if needed, the Bank may stop the clock

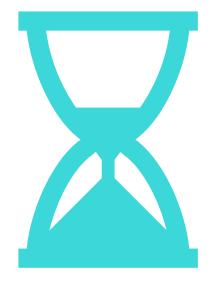
Decision & Outcome

• Bank will assess and determine next steps for application

Application Fee:

• £40,000 fee required before Gate 2 approval (SAN issuance)

Addressing Gaps & Resubmission Process



Strong submissions

o Clear, complete, and high-quality applications are key.

Handling identified gaps

o If areas require further identification, firms will have the opportunity to improve submission.

Resubmission timelines

o Firms should anticipate taking necessary time to refine applications before resubmitting.

Next Steps



Upcoming Webinar – March

The Bank will hold a further DSS webinar to:

- Address key questions from firms approved at Gate 1 regarding the Gate 2 application process.
- Provide more detail on specific sections of the Gate 2 application forms and the required information.



For any questions in the meantime, please contact us at DSSEnquiries@bankofengland.co.uk



Q&A and Closing Remarks

