UK DLT Vision and Strategy

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Executive Summary

AFME is highly supportive of the UK pursuing an ambitious vision and strategy towards broader DLT adoption in financial services.

The UK has already made important high-level commitments to distributed ledger technology (**DLT**) adoption, including as part of the Financial Services Growth Competitiveness Strategy and as part of the Wholesale Financial Markets Digital Strategy**.** Some of the individual steps already taken or proposed by the UK have the potential to greatly support DLT adoption. For example:

- The establishment of the Digital Securities Sandbox (DSS) in 2024 offers greater opportunity for both new and established UK-based market participants to experiment with the use of DLT in financial services
- Sovereign debt issuance programme through the DIGIT Pilot
- Plans for more international cooperation, including through the US-UK Taskforce for Markets of the Future
- Near-finalisation of the synchronisation of the real-time gross settlement system (RTGS) with DLT platforms, allowing for end-to-end delivery of securities against cash on-chain

However, international regulatory dynamics and private sector innovation are rapidly evolving. As a result, the UK is at risk of falling behind other international financial centres. The UK therefore needs a Vision and Strategy which go further and faster, and which are implemented at pace. This will ensure that the UK can continue to play a leading role in DLT adoption.

Vision & Strategy

Vision:

- The UK serves as a global centre for DLT-based financial services, including as a global bridge for financial services.
- UK regulation is an international benchmark, with the objectives of ensuring that the UK is a DLT-based financial services jurisdiction of choice whilst maintaining reasonable regulatory alignment with other jurisdictions.
- English law is the paradigm governing law of DLT-based financial services, together with the jurisdiction of English Courts or arbitration.
- Internationally, the UK is a leading advocate for the development of seamless cross-border DLT-based financial services.
- UK Government policies serve as a catalyst and driver of DLT adoption and innovation across the UK economy (and the ultimate creation of a token economy), significantly enhancing UK economic innovation, efficiency and growth.

Strategy:

This Vision is implemented through a UK DLT-based financial services strategy which goes further and faster. Its key recommendations include:

1. **Clear, timely and consistent policy frameworks (including UK Government domestic policies) that enable and encourage DLT-based financial services adoption and innovation.**

2. **Regulatory and legal frameworks that enhance the international attractiveness of the UK as a centre for DLT-based financial services[1], including an outcomes-based approach to international regulatory alignment and deference.[2]**
3. **Proactive and persistent Government and public sector deployment of DLT-based financial services.**

[1] Facilitating the end-to-end lifecycle of assets on-chain, the availability of regulated DLT-based cash assets – including DLT-based central bank money, commercial bank money and stablecoins - is critical for DLT-based financial services' adoption and innovation.
[2] International initiatives led by the UK that enable and encourage DLT-based financial services adoption and innovation (for example further work such as the US-UK Taskforce for Markets of the Future) can serve as vehicles for this.

Growing and Scaling DLT-based Financial Services

Financial services are at the core of the UK economy, and the City of London is a leading global financial centre, playing a critical role for global and domestic institutions' access to finance and for FX, bond, derivatives and commodities trading. The UK also boasts large Eurodollar markets, and is home to leading European public and private equity and debt markets and the second-largest asset management industry worldwide.[3]

All these activities and asset classes are likely to be impacted and reshaped by DLT over the next 5 years. Asset management and bond markets (particularly repo) have already seen substantial and growing DLT adoption. As highlighted in the GFMA's recent publication 'The Impact of Distributed Ledger Technology in Capital Markets'[4], other asset classes such as private credit markets, bonds and OTC derivatives have both high potential and increasing readiness for DLT adoption.[5] All of these fall squarely in the core areas of strength of the City of London, necessitating a vision and strategy for building on the City's current strengths to marshal DLT for the competitiveness and economic growth of both the UK and the City of London.

DLT provides a unique opportunity for more efficient, innovative and accessible financial services, with the potential for benefits to the wider UK economy. With its ability to represent all types of financial and economic assets on shared ledgers and execute transactions in automated, programmable and expedited ways, DLT has many widely recognised advantages, including enhancing financial services' efficiency and innovation, streamlining access to finance, and reducing settlement risk and costs.

DLT-enabled standardisation and fractionalisation[6] as part of adoption in the UK financial services sector may also provide for greater market access, both for investors and non-specialist (real economy) issuers. The possibility of more efficient and liquid securitisation and other markets for working-capital funding can directly benefit UK businesses. Moreover, linkage of financial use cases to those in the wider economy – e.g. in supply chain financing – can enhance wider economic efficiency, growth and innovation.

DLT may also – without further UK action - pose threats to the traditional advantages of the UK as an international financial centre. One pillar of the UK's sucess in global capital markets has been its centricity in terms of time zones, in particular trading hours that overlap with those both in APAC and the US. As broader policy developments and the use of DLT enable faster settlement times, it is even more important that the UK should maintain its position as an international, sophisticated financial centre for continuous trading.

Moreover, first-mover and fast-follower advantages can be substantial in the DLT space. As highlighted in the Bank of England's recently published report on innovation, adoption is contingent on powerful network effects.[7] The UK should therefore act now – and act rapidly – to ensure that it can

[3] See AFME's *Capital Markets in the UK: Key Performance Indicators*
[4] See GFMA's *The Impact of Distributed Ledger Technology in Capital Markets*
[5] Exhibit ES.6, p.13
[6] DLT enables broader market access for smaller investors through fractionalisation: the splitting of a financial asset (eg bond) into multiple tokens representing smaller denominations, thus reducing the required minimum investment size. Fractionalisation can also enable more personalised allocation of financial instruments (for example bonds) in funds. See AFME's Scaling Roadmap for SSA Issuers for more detail: https://www.afme.eu/media/kkdfsudg/afmedltssabondsissuers0811.pdf.
[7] See the Bank of England's *Approach to innovation in artificial intelligence, distributed ledger technology, and quantum computing*

take a leading role in the financial services sector of the future and capitalise on the potential to create new international DLT-based financial sector markets.

Recommendations

To implement the Vision and Strategy for the UK set out above, AFME proposes the following recommendations:

1. Implement a clear, timely and consistent policy framework that goes Further and Faster to enable DLT-based UK financial services innovation and adoption

While there are advantages to being a regulatory follower when it comes to regulating some new technologies, DLT adoption is characterised by both network effects and collective action problems that require timely and proactive policy steps. The presence of network effects implies that a jurisdiction's starting position – i.e. early DLT adoption and scaling rates – can impact whether the jurisdiction can achieve sufficient scope and scale to be a leader in DLT longer term. Being a first mover can thus create advantages.

The fact that DLT requires many actors in the value chain to 'switch' to a new technology more or less concurrently, implies the need to overcome collective action obstacles to scaled adoption. There is therefore a role for the Government and the public sector in helping to coordinate and encourage DLT adoption. Clear, timely, and appropriate regulatory and legal frameworks are key parts of providing this coordination.

The UK has taken positive steps in a number of areas: the introduction of the Digital Securities Sandbox (DSS) provided the necessary flexibility and clarity for firms to continue to invest in scaling of DLT activities. The Law Commission's recommendations and report on the treatment of digital assets as property rights under English law have helped to provide legal clarity on the treatment of these new asset classes.

However, urgent and coordinated policy action is still required across a number of areas. If the UK delays and/ or fails to act, DLT-based financial activities will move away from, or not come to, the UK.

1.1 Enable the use of DLT-based commercial bank money solutions, including the issuance of stablecoins by UK entities

Effective and efficient means of DLT-based cash solutions are key to achieving important benefits offered by the wider DLT ecosystem, in particular the ability to achieve transaction programmability, and, if desired, atomic settlement[8]. As such, the UK should permit the use of DLT-based commercial bank money solutions, including tokenised deposits and stablecoins, in wholesale settlement. This is critical to the broader development of DLT-based financial services, especially in the absence of a wholesale Central Bank Digital Currency (wCBDC).

[8] With all components of a transaction executed precisely and simultaneously

The UK is notably trailing behind other major jurisdictions in finalising its framework on stablecoins.[9] Therefore, the following policy changes are urgently recommended:

- Allow credit institutions to issue stablecoins. As credit institutions are already subject to high regulatory standards, and have significant expertise in risk and liquidity management, they should be permitted to issue stablecoins and offer stablecoins to their clients.
- Allow credit institutions to custody the backing assets of stablecoins they issue within the same banking groups, in line with existing rules on client assets.
- Ensure the eligibility of regulated stablecoins as settlement assets, as this is key in broadening settlement choice for investors and corporates and in enabling the use of DLT for asset transactions in a seamless, end-to-end manner
- Implement UK regulation in accordance with the FSB and IOSCO recommendations (as noted in the recent FSB and IOSCO's reviews).

1.2 Ensure prudential requirements enable DLT adoption and innovation

- Enable UK-based entities to adopt DLT through appropriate prudential and operational requirements, by:[10]
  1. Ensuring regulatory technological neutrality and without penalisation (for example, by reducing the disproportionate 1250% risk weight) for exposures on public permissionless blockchains.
  2. Ensuring that risk-weighted asset requirements for DLT-based and crypto-assets are in line with other assets.
  3. Ensuring that gross exposure limits permit netting across positions as part of the calculation or recognize hedging strategies.
  4. Following a consistent definition of netting.
  5. Clarifying the prudential and regulatory treatment of stablecoins held by banks on behalf of customers (including application of the FCA's CASS rules).

1.3 Continue to update DSS in light of market developments

While the DSS is a very welcome framework, continual alignment of the DSS in step with DLT market developments is needed. In particular:

- Permitting the direct participation of branches of non-UK headquartered firms in the DSS, to more accurately reflect the nature of international capital markets. This should also be considered as part of a UK-US regulatory sandbox (see recommendations below).
- To facilitate a key utility of DLT for more precise mobilisation and settlement of assets and efficient collateral management, UK regulators should remove obstacles to the trading and processing of DLT-based financial assets, including their listing and trading eligibility within and outside the DSS. This change is paramount to enabling issuer, investor, and underwriter participation and overall UK market development.
- The UK should also facilitate the creation of intraday repo markets by granting collateral eligibility to DLT-based assets within and outside the DSS.
- Leveraging lessons learned from the DSS in preparation for its permanent successor regime: the UK should review the functioning of, and need for, financial market infrastructures such as central securities depositories in a DLT-based system and seek to create an open network architecture for their implementation.

[9] The EU and Hong Kong have already implemented their Stablecoin regimes, and the UAE and US are moving fast in this space.
[10] Please refer to more details in the GFMA's Letter to the BCBS on Cryptoasset Exposures here: https://www.gfma.org/wp-content/uploads/2025/08/bcbs-prudential-letter-final-public-version.pdf

2. Adopt regulatory and legal frameworks that enhance the international attractiveness of the UK as a centre for DLT-based financial services

A second key strategic area of focus is building the UK's international position as a global centre of DLT-based financial services; i.e. the UK being the DLT jurisdiction of choice. To achieve this, the UK needs to be acutely aware of commercial and regulatory developments elsewhere, and to expeditiously recalibrate for the UK accordingly. For example, ensuring access for non-UK entities to UK markets through appropriate regulation and leveraging the UK's inherent strengths.

There have been a number of recent positive UK steps and developments – notably the recent creation of the Transatlantic Taskforce for Markets of the Future through the UK-U.S. Financial Regulatory Working Group. Nonetheless, other urgent actions are necessary:

2.1 Design UK regulation that sets an international benchmark and facilitates the international openness of UK markets

To enable the UK to be at the centre of DLT adoption and innovation in financial services, the UK should urgently develop a regulatory regime that sets an international benchmark in pursuit of outcomes-based regulatory alignment with other jurisdictions. In other words, the UK should design and implement a regulatory regime which establishes itself as the DLT jurisdiction of choice, and which does not place the UK at an international regulatory disadvantage.

The UK's future regime should also facilitate the international openness of UK markets. For example, to support cross-border transactions, the UK's framework should facilitate common, outcomes-based market standards. The US-UK Taskforce on Markets for the Future is an example of a vehicle for this leadership (see more below).

In particular, to ensure that:

- The UK's regulatory regime for DLT-based assets and cryptoassets is world-leading and competitive. The UK should ensure that its regulatory framework enables UK-based entities to provide services in DLT-based assets and crypto-assets to third-country clients and to access overseas liquidity and service providers (e.g. sub-custodians) in the same manner as in traditional financial markets.
- The UK's stablecoins regime promotes the UK as a stablecoins issuance jurisdiction of choice, and does not place the UK at an international regulatory disadvantage (for example, by removing from the UK's proposed regime any restrictions on holding or use of stablecoins (at least in wholesale markets)).

2.2 Update English law to provide legal clarity regarding the status of DLT-based and crypto-assets.

- The use of English law as a basis of financial transactions worldwide is a core pillar of the UK's centrality in financial services. The UK should ensure that English law is the paradigm governing law of DLT-based financial services, together with the jurisdiction of English Courts or arbitration. For example, swift passage of the Property (Digital Assets, etc) Bill would help update and clarify the position of property rights in digital assets under English law, and remove any uncertainty for regulated firms undertaking transactions in these assets and servicing them.

Specific Recommendations: UK-US Taskforce on Markets of the Future
1. **Enhanced supervisory cooperation and regulatory dialogue**: the relevant authorities and supervisors should establish enhanced cooperation mechanisms and regulatory dialogue, including through MoUs, in the supervision of firms providing DLT-based assets and cryptoassets. 2. **Joint Sandbox for Digital Securities:** the relevant authorities and supervisors should explore creating a joint UK-US digital securities sandbox in DLT-based financial assets and/or making their individual sandboxes interoperable to facilitate cross-border transactions without regulatory friction. The joint digital securities sandbox should serve as a tool for broader commercialisation and scaling of DLT-based financial assets. 3. **Regulatory compatibility**: the UK and US Governments and relevant authorities and supervisors should ensure that their respective regulatory regimes are mutually compatible. For example, by ensuring a level international-regulatory playing field, technologically neutral international regulation, facilitating common market standards, pursuing outcomes-based regulation and creating a workable deference mechanism. **Client categorisation**: in accordance with the aim of UK and US regulatory compatibility, UK and US entities should be permitted to provide services in DLT-based assets and cryptoassets to professional and institutional clients located in the other jurisdiction without requiring additional authorisation.

3. Deploy DLT pro-actively and persistently in the Government and public sector

A key element that can help overcome collective action problems (see above), is for the UK Government and public sector to play a leading and innovative role. It can do this in two ways. First, by encouraging, facilitating and enabling private sector adoption and innovation. Second, by through its own innovation, adoption and implementation of DLT.

3.1 Implement DIGIT

The UK should urgently pursue an introductory series of sovereign debt issuance (DIGIT), as announced. As part of the DIGIT Pilot, AFME continues to support the UK Government pursuing issuances on different DLT platforms and trialling different DLT archetypes. AFME also notes that sovereign and supranational issuers around the world have already experimented with a wide range of solutions. To create market momentum, the UK should pursue a programme of multiple issuances under the DIGIT Pilot. As part of the DIGIT process, the UK should also seek to remove blockages to the growth of secondary markets for DLT-based financial assets through support for the development of secondary markets for sovereign debt, including DIGIT.

3.2 Ensure multiple options for settlement in central-bank money

In addition to exploring and permitting the use of DLT-based commercial bank money solutions (see above), the availability of DLT-based cash assets remains highly central to the end-to-end lifecycle of DLT-based financial assets.

While the UK was a leader with the adoption of omnibus accounts that enable synthetic DLT-based central-bank money, other jurisdictions – notably the EU via the Eurosystem – have since moved ahead with solutions that enable linkage between the existing settlement system and DLT platforms. As such, the Bank of England should swiftly conclude and operationalise the synchronisation of RTGS with DLT ledgers. In keeping pace with developments in other jurisdictions, the Bank of England should also urgently begin its announced programme of experiments with wholesale central bank digital currencies (wCBDCs) with a view to facilitating international interoperability.

3.3 Facilitate business access to DLT-based finance:
The UK should pro-actively support businesses looking to access DLT-based finance options by exploring and adopting financial DLT-based asset use cases (e.g. DLT-based bonds, tokenisation of funds, etc.).

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