
AFME Response to HM Government's Request for Additional Information and Engagement on the Digital Gilt Instrument

Preliminary Market Engagement Exercise Response

April 2025

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **HM Government's Policy Paper on Additional Information and Engagement on the Digital Gilt Instrument (DIGIT)**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise UK, pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

We focus our response on industry-wide questions relating to the design of DIGIT, and do not comment on firm-specific issues.

Executive Summary

AFME is highly supportive of the UK Government's announced Digital Gilt Pilot (DIGIT), and views DIGIT as an integral pillar of the Government's commitment to maintain its status as a capital markets centre as well as become a tokenisation hub. The announcement of DIGIT has sent a strong signal to international markets and investors on the commitment of the Government to technology and innovation, and the Government should now urgently deliver on this commitment. Building on our previous industry projects and publications, including [Scaling DLT-based Government Bond Markets: A Roadmap Strategy for European Issuers](#) and the Digital Gilt memo (*attached*), we stand ready to provide further input and support to the Government where needed.

Overall, we view that the Government should prioritise the issuance of its first DLT-based bond as soon as is feasible and practicable. The inaugural issuance under DIGIT should be quickly followed by a series of issuances using different DLT platforms to gain experience, foster innovation, and ensure that the UK keeps pace with international developments. Furthermore, a commitment to integrate DLT in the Debt Management Office's (DMO) regular issuance programme beyond the Pilot is crucial to maintaining momentum and securing ecosystem confidence and investments in new technologies.

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Questions

1. What do you think the demand for DIGIT would be? Who would be the primary investors?

We anticipate significant demand for DIGIT from investors. Based on observed investor appetite, we estimate that investors will be able to absorb a sizable issuance size of £1-2 billion over the course of the Pilot. There is significant interest and demand for both UK investors as well as international investors in digital gilts. Primary investors are likely to be GEMMS, corporate and agency treasurers, asset managers, pension funds and hedges funds. If the Government has concerns about the distribution process, it can consider a syndicated private placement with identified investors and a shorter-term maturity.

2. What are investors' expectations for DIGIT?

Investors' expectations for DIGIT broadly be discussed in terms of immediate expectations (technological innovation and product innovation) and medium- to longer-term expectations (cost savings and operational efficiencies):

- In the immediate term, innovation is a key driver for investors' expectations. From an economic perspective, investors' expectations for DIGIT would be similar to those for Government debt instruments in their traditional formats, including reliable income from interest payments and principal repayment, portfolio diversification, and exposure to a highly rated sovereign issuer with a stable outlook. Therefore, it is critical to ensuring that DIGIT is pari-passu to existing UK Government debt, with equivalent credit risk, legal enforceability and ownership rights. Furthermore, compared to the traditional Gilts, DIGIT would in addition be able to offer a valuable opportunity for investors to engage with innovation without increasing the riskiness of their investments. In this context, we note that the use of DLT to date has had limited impact on credit ratings issued by the most prominent rating agencies, in part because of the creditworthiness of the issuers and use of off-chain back-up systems for DLT-based issues and payment solutions.
- In the medium- to longer term, investors would expect to benefit from the cost savings and operational efficiencies offered by DLT. DIGIT can reduce the time and risks associated with traditional settlement, as well as improve market efficiency by creating intra-day liquidity through faster and more precise mobilisation of assets. Globally, it is estimated that ~\$15-20 billion (USD) in annual global infrastructure operational cost savings can be unlocked from DLT.¹ Investors can ultimately expect lower transaction costs from DIGIT once the market is sufficiently mature. In addition, DIGIT also has significant potential for product innovation; for example, DLT has the potential to incorporate data and provide greater transparency about the way in which proceeds of Gilts are allocated, making it a suitable infrastructure choice for issuing Green Gilts. DLT can also help automate corporate actions and asset servicing and allow for the customisation and higher frequency of interest payments based on investor preferences.

Given that the medium-to longer term considerations and potential for cost savings and transformative product innovation may be driving investor participation at the early stage, it is all the more important that the Government is able to provide a commitment to a series of regular issues over time, and ultimately embed the use of DLT in the DMO's regular issuance programme.

¹ Santander and Innoventures, "The Fintech 2.0 Paper: rebooting financial services", 2015.

3. How would demand be impacted by our design choices? Please outline which choices (e.g. interoperability, maturity, price, issuance size and denomination,) are the most important and why?

For an inaugural DIGIT issuance, we view that a shorter-term (e.g. 3-to-12-month maturity), syndicated, and private placed DIGIT with identified investors would maximise investor demand. For investors, while liquidity is a consideration of significant importance, a shorter issuance duration would enable a buy-to-hold strategy that helps to alleviate liquidity concerns. This can help increase interest in the issuance, as well as improve pricing. Examples include 3-6 month DLT-based zero-coupon Treasury Bills.

Another key factor to investor demand is custodian connectivity to the chosen DLT platform(s), to allow for the safekeeping of DIGIT tokens on behalf of investors and provision of post-trade services. While interoperability is also important, we view that as the market matures, interoperability will naturally expand through bridges and consolidation around a limited number of DLT platforms; therefore, interoperability should not be treated as a binding constraint for the inaugural issuance.

In addition, the Government's commitment to a programme of issues is also a key factor for investor demand. The Government should commit to a longer-term issuance strategy, which should allow: i. for further innovative issues, including the use of DLT-based central bank money for settlement; and ii. over time, the creation of a DLT-based issuance programme as part of the DMO's regular issuance programme as well the creation of a permanent regulatory framework that accommodates the development of DLT-based markets. Such a longer-term issuance strategy would help secure investments and commitment from the ecosystem and encourage early stage investor participation.

4. How could DIGIT catalyse the development and adoption of DLT more widely? What design choices are important here?

DIGIT can play a significant role in the development and adoption of DLT more widely. We have observed that inaugural bond issuances on DLT led by sovereigns, supranational and agency issuers in other jurisdictions have led to increased confidence from the ecosystem and greater comfort demonstrated by issuers in embedding DLT in their issuance programmes (for example, by increasing frequency, volume and maturity of issuances), and ultimately, increased investor participation.² As in other jurisdictions, we also believe that DIGIT will pave the path for corporate issuers to experiment with issuance on DLT, and broaden choices for access to finance for companies and real economy actors. A successful DIGIT will also help the UK develop advanced DLT-based financial market infrastructures, which will ultimately enhance the UK's attractiveness as a financial centre.

In terms of design choices that will influence the development and adoption of DLT, we strongly support the Government in pursuing a series of issues as part of DIGIT using different DLT platforms and experiment with different types of ledgers. Different types of ledgers offer different benefits and trade-offs, and experimentation will offer valuable lessons on the characteristics of different technologies as well as equip the Government with additional flexibility as markets evolve and consolidate.³

² We observe that at least seven SSA issuers around the world (HK Government, World Bank, European Investment Bank, Inter American Development Bank, Asian Infrastructure Investment Bank, German development bank KfW and City of Lugano) have conducted multiple DLT-based bond issues, with the majority of these issuers having issued at least 3 instruments on DLT.

³ For more information, see page 15 of [Scaling DLT-based Government Bond Markets: A Roadmap Strategy for European Issuers](#).

In relation to cash settlement, DIGIT also provides significant opportunities for the Government, Bank of England, and private sector to experiment with DLT-based settlement instruments, which are critical for unlocking technological benefits (including programmable settlement that is as close as possible to atomic settlement) and ensuring that the UK keeps pace with innovation in payment and money. In this context, we note that the ECB's Trials and Experiments on wholesale CBDCs and the Swiss National Bank's wCBDC Pilot (Project Helvetia) have driven more than half of the global DLT fixed income issuance volumes last year (at £2.6bn).⁴

5. How important is secondary market trading to the success of DIGIT? What factors are important in the design that would help facilitate secondary market activity?

Secondary market trading and liquidity are crucial to the functioning of fixed income markets. However, we note that depending on the structure and design of DIGIT, secondary market trading may not be the most critical consideration for the inaugural issuance. For example, a shorter issuance duration would enable a buy-to-hold strategy that helps to alleviate liquidity concerns.

Looking to the future, on-venue trading eligibility and central bank collateral eligibility of securities remain critical for investor participation especially in relation to longer dated issues. Therefore, in [Scaling DLT-based Capital Markets: A Policy Roadmap for the UK](#), AFME has considered the various necessary policy and regulatory changes that would allow for DLT-based securities to have the same economic functions as traditional securities, including ensuring that the security record-keeping requirement (a prerequisite for trading and collateral eligibility outside of the DSS) is fully compatible with the use of DLT.

6. How important is interoperability (for example, amongst different DLT platforms as well as between DLT platforms with existing infrastructure)?

As noted above, while interoperability is important, we do not consider it a prerequisite for the inaugural issuance.

7. What steps should be taken by the private sector to support greater DLT adoption?

The private sector has taken many steps to support greater DLT adoption, including investments in developing advanced DLT platforms and supporting over £2.6bn of DLT-based fixed income transactions in 2024, as well as ongoing projects towards standardisation projects, including the [Project Guardian Fixed Income framework](#). Looking forward, the private sector continues to work on ecosystem collaboration (including the onboarding of a fuller range of participants to the DLT system), interoperability, and innovation.

8. Based on the parameters set out in this document, how long would you expect the project to take from appointing a supplier to issuing DIGIT?

Given that many DLT platforms now have significant experience in supporting Government bond issuances around the world, we do not think the project from appointing a supplier to issuing DIGIT would require a significant amount of time.

⁴ See AFME's [DLT-Based Capital Market Report](#).

9. Outside of the questions above, are there any other areas the Government should be considering in taking forward a DIGIT pilot issuance?

We note that DLT-based bond markets are developing at a rapid pace, with a number of sovereigns (HK SAR Government, Slovenia), supranational authorities (European Investment Bank, World Bank) and agencies (French public financial institution Caisse des Dépôts, Italian development agency Cassa Depositi e Prestiti, and German development bank KfW) using DLT for bond issuances. Global DLT-based bond issuances in 2024 totalled £2.6bn, well exceeding the 2023 totals (£740mn). However, while there is growing volumes of DLT-based issues in the rest of Europe – in no small part due to supportive initiatives from Governments and central banks – we have yet to see comparable levels of DLT-based issues in the UK despite English law being used as the governing law for a high proportion of global DLT fixed income issuance in 2024.⁵ Therefore, to secure and support expansive ecosystem and investor participation, we continue to strongly support the Government in pursuing a series of multiple issuances as part of DIGIT, growing its knowledge of new technologies, positioning the UK as an innovation and tokenisation hub, and ultimately embedding the use of DLT in the DMO's regular issuance programme.

⁵ AFME's DLT-Based Capital Market Report found that English law was the fourth most common governing law for global DLT fixed income issuance in 2024, accounting for €571mn of issuance.