EMAIL SUBMISSION TO: DIGIT@hmtreasury.gov.uk

To whom it may concern,

Re: HM Treasury and Debt Management Office Market Engagement Questions on the Digital Gilt Instrument (DIGIT)

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been written and submitted on behalf of the GDF board.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail should that be beneficial as HMT, and the UK authorities continue their work.

Yours faithfully,
Elise Soucie – Executive Director, Board Member – GDF

Executive Summary - GDF Response to Market Engagement Questions

GDF welcomes the opportunity to respond to HM Treasury (HMT) and the UK Debt Management Office (DMO) Market Engagement Questions on Additional Information and Engagement on the Digital Gilt Instrument (DIGIT).

We recognise that the primary objectives of HM Treasury and the UK Debt Management Office (DMO) in exploring the DIGIT project are to assess the potential benefits, challenges, and practicalities of issuing gilts using distributed ledger technology (DLT). As set out in our report from autumn 2024, The voice of global digital finance at Parliament, we are in agreement that, if properly designed and executed, a successful DIGIT issuance will demonstrate how tokenisation could improve the efficiency, resilience, and accessibility of the UK government bond market, while maintaining the core features and credibility of traditional gilt issuance. Our #1 Recommendation from this report was that 'The UK should work to become a leader in global standards for the tokenised securities markets, starting with a digital gilt issue.' We are overall supportive of the aim of this work, and the UK's ambition to harness the potential of DLT to drive efficiency, enhance transparency, and improve the resilience of the financial services sector.

The following letter summarises our feedback to the Market Engagement Questions and highlights the key points of feedback that the board would wish to provide to HMT. Our overarching feedback is as follows:

1. **It is critical for DIGIT to be future-proof and part of a broader and scalable transformation of financial markets infrastructure rather than a stand-alone experiment;**
2. **We urge the UK to act quickly in the development of digital financial infrastructure in order to support its legacy as a global financial centre and maintain its position as a leader in innovation;**
3. **In order for DIGIT to scale it must have both legal and functional parity with traditional gilts;**
4. **We believe critical design factors for DIGIT are interoperability, issuance size, maturity profile, and regulatory treatment;**
5. **A liquid and accessible secondary market is essential for DIGIT to operate as a credible extension of the UK sovereign debt programme;**
6. **We remain committed to the belief that industry and policymakers should prioritise common standards, interoperability, and scaling for the UK's digital market to flourish; and**
7. **We support HMT, the DMO, and Bank of England (BoE) in exploring future opportunities for a DIGIT pilot and the DSS to use regulated stablecoins as on-chain settlement assets to support the overall growth and development of the digital finance ecosystem.**

Response to the Market Engagement Questions:

GDF would note that we have not responded to each question within the consultation, acknowledging that we are not market participants. Instead, our response focuses on key questions where we believe we can contribute relevant feedback from our discussions with industry, engagement in Parliament, as well as global developments as we work to advance standards and best practice with the public and private sector around the world.

We reiterate our support for the DIGIT project and remain at the disposal of HMT and the DMO should it be helpful to discuss any of the feedback further or provide additional detail on the key points raised.

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

Demand Outlook for DIGIT: The pilot Digital Gilt Instrument (DIGIT) – a tokenised UK sovereign bond issuance – can be expected to attract robust demand across the financial sector. As already set out in GDF's report[1] from autumn 2024 we firmly believe that "The mass adoption required for an impactful sterling-denominated digital bond issuance - that truly 'moves the dial' and galvanises industry - will only come from a digital gilt issuance.

We believe firmly that a digital gilt backed by the UK government would attract broad investor participation and market reach which in turn would drive liquidity. The combination of automated processes, a reduced need to pre-position collateral, and enhanced settlement, could help investors manage gilt collateral more efficiently to meet margin calls in times of stress. A digital gilt programme will moreover contribute to fostering greater transparency, efficiency, and accessibility in the market, while also enhancing liquidity and promoting broader market participation.

The goal of building a vibrant and widely adopted UK digital gilt market will require concerted efforts from various stakeholders, including financial institutions, FMIs, regulatory bodies, and the central bank. Industry commends HM Treasury with respect to the Digital Securities Sandbox to form cross-industry recommendations. In a similar vein, such a cross-industry body could support the Debt Management Office in mapping the key components of a successful digital gilt.

The overarching goal is to establish a robust and widely adopted UK digital gilt market characterised by optimal levels of liquidity, efficiency, and stability. In this regard, facilitating repurchase agreements (repos) will be instrumental in achieving liquidity within this market, serving various critical functions such as providing short-term funding, facilitating market making, supporting collateral management, and serving as a tool for monetary policy operations."

This demand is underpinned by the efficiency, transparency, and programmability that distributed ledger technology (DLT) brings to government debt. By leveraging DLT, a DIGIT issuance can enable faster settlement and reduced administrative friction, which enhances liquidity and market transparency. It could also broaden market access, allowing a wider investor base to invest in gilts.

[1] https://www.gdf.io/wp-content/uploads/2024/11/TheVoiceofGlobalDigitalFinanceatParliament.pdf

The instrument's programmability (e.g., via smart contracts) allows for automated features such as instant coupon payments, compliance checks, or even embedding ESG data, thereby improving operational efficiency and innovation in bond markets.

A digital gilt can also better support new forms of collateralisation, investment, and public debt distribution. The digital issuance model supports ESG applications as it minimizes paper-based processes and could be structured to channel funds into sustainable projects or to incorporate transparency around the use of proceeds, aligning the instrument with green finance objectives.[2]

Finally, DIGIT has the potential to strengthen the pound's role in global finance. A tokenised gilt could help enable the pound to be a more dominant settlement currency in international digital asset markets. International institutions and treasuries seeking GBP exposure would have easier access, with reduced settlement risk and operational friction. This could in turn better support the development of GBP-denominated on-chain FX markets and cross-border applications of the digital finance industry.

Primary Investor Profile: Given these advantages, primary investors in a DIGIT issuance are expected to be traditional financial institutions and institutional investors. Major banks, broker-dealers, and financial institutions would likely participate to obtain high-quality liquid assets in a programmable form that improves settlement and collateral efficiency. Likewise, institutional investors – including pension funds, insurance companies, and asset managers, as well as participants in tokenised collateral markets - from clearing members and prime brokers to asset managers and hedge funds - would benefit from the operational gains and risk reductions offered by programmable, tokenised gilts. There are benefits to be gained by market participants across the full spectrum of the market, due to the enhanced transparency, liquidity, and trust in a government-backed digital asset.

Fintech firms and digital asset managers may also engage (both as investors and as facilitators), leveraging the token's programmability to develop new services and secondary markets. Additionally, ESG-focused capital allocators (such as green funds and impact investors) would find DIGIT attractive if its design aligns with sustainability goals – for example, by linking issuance to environmental projects or by providing clear on-chain tracking of ESG metrics as set out above. BIS's Project Genesis and Genesis 2.0 are clear examples of the global interest in using DLT to further sustainability objectives.

In summary, a tokenised digital gilt is poised to garner broad-based support from both established market players and innovation-driven investors, reflecting a convergence of financial stability interests and forward-looking, sustainable investment objectives.

What are investors' expectations for DIGIT?

For DIGIT to succeed and contribute to the future growth of the UK's sovereign debt programme, GDF believes that it must offer both legal and functional equivalence to traditional gilts while meeting

[2] See page 26-29 for further detail on Sustainability, Digital Energy Attribute Certificates: Case study of UK Climate Fintech C:Pesa DIGIRECs® to achieve Carbon Free electricity parameters for consumption - https://www.gdf.io/wp-content/uploads/2024/11/TheVoiceofGlobalDigitalFinanceatParliament.pdf

the expectations of a digitally transforming financial market. We would note here that investors are not seeking a symbolic proof of concept, but rather as global markets continue to evolve at pace it is crucial for the UK to have a fully operational instrument that integrates seamlessly into existing regulatory, trading, and collateral frameworks. Legal certainty, proportionate and appropriate treatment in terms of eligibility and risk weighting, and tradability on recognised venues such as the London Stock Exchange and Archax are critical. Functional parity, such as for institutional portfolios, collateral optimisation strategies, pension fund liability matching, and structured products is also necessary for DIGIT to scale. Without full parity (including for issuance and settlement through to custody, secondary trading, and redemption) with traditional gilts we are concerned adoption will be limited and the broader objectives of digital financial market innovation may be undermined.

Beyond legal form, DIGIT must also deliver technical robustness and interoperability. Investors increasingly expect native on-chain issuance for improved reconciliation, enhanced transparency, and direct integration into programmable financial ecosystems. Flexibility in settlement — including support for both traditional systems and on-chain mechanisms using stablecoins or tokenised deposits — will be key to attracting a diverse base of participants. While programmability need not be fully realised at launch, it should be a foundational design principle, enabling future use cases such as ESG-linked features or automated lifecycle management. Ultimately, accessibility across both private and public blockchain environments will also be critical for distribution in the long term and to ensuring UK sovereign debt remains competitive, visible, and investable in the next era of global capital markets.

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?

GDF strongly believes that the success of DIGIT as a credible market instrument will depend on a series of interrelated design choices—chief among them: interoperability, issuance size, maturity profile, denomination and regulatory treatment. We believe that these are structural enablers that will determine whether DIGIT is adopted as a seamless, high-quality extension of the UK's sovereign debt programme.

Out of these design factions, we believe that interoperability is foundational. To gain meaningful traction, DIGIT must operate across both public and permissioned blockchain networks while integrating with established custody, settlement, and trading venues. Limiting access to a narrow set of platforms could result in constraining adoption and innovation. A truly interoperable design enables composability—allowing fintechs, stablecoin issuers, and digital asset managers to build financial products and services around DIGIT. Equally, the structure and size of issuance should reflect market expectations. A meaningful initial issuance—particularly short-dated instruments of three months or less—would support early use cases in liquidity management and stablecoin reserves (as noted earlier - interoperability with regulated stablecoins will be critical), while a roadmap for issuance across the curve would allow for broader asset manager participation.

We also believe regulatory clarity will be a decisive factor. For DIGIT to succeed, it must be treated as a gilt—not as a cryptoasset—ensuring alignment with conventional tax treatment and risk frameworks. Misclassification could risk deterring institutional investors, particularly those bound by strict compliance mandates. Settlement optionality will also shape uptake: while some investors will expect traditional custodial integration, others will seek fully on-chain settlement and ownership. Supporting both models will be essential to bridging legacy and next-generation capital markets.

Finally, denomination size and market dynamics must not be overlooked: fractionalised issuance, active market-making, and price consistency with conventional gilts will all help unlock new demand and ensure investor confidence across the spectrum.

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

As set out in our report and the previous responses to the Market Engagement Questions, GDF believes that a well-structured DIGIT has the potential to serve not only as a modernisation of sovereign debt issuance but as a strategic catalyst for the broader development of the UK's digital financial ecosystem. By anchoring a trusted, sovereign-grade asset to distributed ledger technology (DLT), the public sector can set a powerful precedent for the private market, accelerating infrastructure investment and adoption of tokenised financial services. As GDF has set out in previous reports and engagements with UK authorities through consultation papers, roundtables, and bi-lateral discussions, leadership from public institutions, and the utilisation of new technologies by the public sector, will be essential to fostering confidence and scaling growth in emerging digital markets. A digital gilt, issued natively and with clear legal and regulatory treatment, would signal institutional readiness and could serve as a cornerstone for further innovation across tokenised finance.

Crucially, DIGIT could reshape market infrastructure through the existing institutional framework. Expanding on our response to the first question, if primary issuance mirrors traditional gilt auctions, requiring participation from recognised primary dealers, it will necessitate integration of DLT capabilities—wallet infrastructure, smart contract execution, digital settlement, and compliant custody solutions. This foundational shift could drive institutional readiness beyond DIGIT itself, enabling broader applications including tokenised corporate debt, smart contract-enabled repo, and programmable treasury management.

The UK's Digital Securities Sandbox and international pilots such as Project Genesis as previously mentioned show the potential for sovereign digital assets to stimulate new market models—ranging from real-time collateralisation to ESG-linked smart bond issuance—underscoring the importance of sovereign instruments as trust anchors for digital financial ecosystems.

DIGIT's design choices (as set out in our response to the previous question) will also define its long-term reach and influence. Public blockchain compatibility, open standards, and native issuance are vital to ensure interoperability, secondary market development, and global accessibility. Tokenised gilts could enhance the UK's capital markets footprint by reaching investors in regions currently underserved by traditional infrastructure. They could also serve as programmable, composable instruments for collateral, liquidity management, or structured products, enabling use cases across both institutional and decentralised finance platforms. Aligning DIGIT with the UK's green finance strategy—by embedding traceable ESG metrics into tokenised green gilts—would reinforce the UK's leadership in sustainable finance.

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?

As set out in our report[3] previously mentioned, "Fully realising the benefits of a digital ecosystem will also require a network effect. To achieve this, a scalable financial market structure that brings together market participants across the capital markets spectrum and allows them to seamlessly interoperate is needed. For instance, while activity in digital bond issuance has increased, institutional adoption will remain limited until infrastructure that can unify the full bond market ecosystem, such as secondary market liquidity, expansion of the custody framework, financing, lending, and collateral, is in place."

GDF feels strongly that a liquid and accessible secondary market is essential for DIGIT to operate as a credible extension of the UK sovereign debt programme. Institutional investors must have confidence in their ability to trade digital gilts efficiently, with deep liquidity, price transparency, and frictionless settlement. This begins with ensuring that DIGIT is listed on traditional venues like the London Stock Exchange and available on regulated digital asset platforms such as Archax. To foster broad participation and remain future proof, DIGIT must also be accessible across both public and permissioned blockchain networks. Restricting issuance to a single infrastructure or closed-loop ecosystem would limit liquidity and undermine the very market confidence required for adoption. Equally critical is the availability of real-time, on-chain settlement—preferably through regulated GBP stablecoins—to enable delivery-versus-payment and minimise counterparty risk in the absence of a UK CBDC.

Furthermore, maintaining price parity and fungibility between DIGIT and conventional gilts is key to supporting liquidity and anchoring trust. Market makers and institutional investors must be equipped to operate seamlessly across both markets, with clear mechanisms to arbitrage away price dislocations. The SIX Digital Exchange model provides a compelling precedent: by enabling direct conversion and coordinated settlement between digital and traditional instruments, SDX prevents value fragmentation and supports a unified market. Applying similar principles to DIGIT—through dual issuance, integrated redemption protocols, or authorised conversion channels—would allow professional market makers to support pricing continuity and ensure that economic characteristics remain indistinguishable from conventional gilts. Price stability, in this context, is not incidental—it is a product of deliberate design and infrastructure alignment.

[3] https://www.gdf.io/wp-content/uploads/2024/11/TheVoiceofGlobalDigitalFinanceatParliament.pdf

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

Recommendation #7 of our report set out that: Industry and policymakers should prioritise common standards, interoperability, and scaling for the UK's digital market to flourish. In support of this principle, GDF firmly believes that interoperability must be embedded as a core design principle for DIGIT if it is to function as more than a closed-loop pilot. Seamless interoperability across public and permissioned blockchains, traditional market infrastructures, and diverse custody and settlement models is essential to ensure DIGIT can integrate with the broader financial system while supporting the development of DLT-native market structures. Without this, market participants face the risk of technological lock-in, fragmented liquidity, and constrained adoption. From a policy perspective, interoperability also promotes resilience, avoids vendor dependency, and aligns with the UK's commitment to open and competitive digital markets—principles echoed across initiatives like the Digital Securities Sandbox.

Beyond integration, interoperability unlocks composability—the ability for market participants to build new financial products and services around DIGIT. This includes programmable collateral management, on-chain liquidity protocols, and digital fixed-income solutions tailored to both institutional and retail investors. Critically, interoperability also supports secondary market efficiency. Without the ability to operate across chains, venues, and custodians, market makers face increased friction and reduced arbitrage potential. A well-designed, interoperable DIGIT would therefore not only attract broader market participation but also catalyse innovation, competition, and liquidity formation across the evolving digital finance landscape.

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

GDF firmly believes that the private sector, as well as non-profit organisations and industry associations such as GDF, all have a pivotal role to play in shaping the digital finance landscape by proactively developing the infrastructure, standards, and use cases that make DLT adoption both viable and strategically aligned with UK policy objectives. By investing in interoperable and scalable systems, contributing to regulatory consultations, and advancing shared technical standards through industry collaboration, firms can help build a cohesive, innovation-ready ecosystem. Supporting public-sector initiatives like DIGIT—alongside the development of regulated digital assets such as GBP stablecoins and tokenised funds—can demonstrate real-world utility and reinforce the UK's position as a global hub for safe, open digital financial markets. Building market confidence through education and institutional engagement will further accelerate adoption and ensure that digital finance advances in a trusted, transparent, and inclusive manner.

GDF remains committed to supporting both the UK public sector, the private sector, and broader global standard setters and jurisdictional regulators in these efforts as part of our mission 'To promote and underpin the greater adoption of market standards for the use of crypto and digital assets, through the development of best practices and governance standards in a shared engagement forum with industry, policymakers and regulators.'

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?

GDF would note that while we are not ourselves market participants, we believe that, based on our engagement with industry, that the timeline from supplier appointment to the first DIGIT issuance will vary depending on the complexity of the chosen technology, the degree of reuse of existing infrastructure, and any necessary legal or regulatory adaptations. Given the pioneering nature of DIGIT, it is essential that the pilot is not treated as a one-off exercise (as set out throughout our response), but as the foundation for a scalable, ongoing programme of digital gilt issuance. Emphasising robust design, interoperability, and regulatory alignment from the outset will be critical to long-term success. A realistic implementation window, inclusive of design, development, stakeholder consultation, testing, and legal analysis, would likely fall within a 12 to 18-month timeframe.