HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dame Meg Hillier MP
Chair of the Treasury Select Committee
House of Commons
London SW1A 0PW

3rd February 2025

Dear Dame Meg,

Digital Gilt

Thank you for your letter of 5 December 2024 asking for further information on the pilot Digital Gilt Instrument (DIGIT) issuance, following its announcement at Mansion House. I have provided a response to your questions by theme. It should be noted that this project is still in its infancy and in a number of areas the answers to your questions are not yet known or decided upon. I have provided a response where I am able to at this stage.

Purpose

1. The Economic Secretary set out, in her written statement on 18 November 2024, that the pilot DIGIT issuance "will enable the government to explore the potential benefits that distributed ledger technology (DLT) could bring to the debt issuance process, as well as stimulate the wider development of DLT platforms and infrastructures across UK capital markets[1]". The pilot will allow us to test and understand these potential benefits and support the financial sector by putting the UK at the forefront of capital markets innovation.

2. The pilot is, by its nature, an experimental exercise which will be conducted cautiously and in a way that is both distinct from, and sit outside of, the government's debt programme in order not to impact the vital smooth running of that programme.

3. We are still in an early phase of the pilot, consequently, too soon to confirm what the overall costs of DIGIT will be in comparison to traditional UK gilts, or to determine whether any premium will be payable. However, the government will ensure value for money for the taxpayer in its design, execution, and adhering to managing public money principles.

Demand for DIGITs

4. Demand for the DIGIT will depend on market appetite from investors at the time of issuance, which will also reflect prevailing market conditions. Market participants [or: 'firms'] in the financial services sector are exploring this technology and are taking steps

[1] Written statements - Written questions, answers and statements - UK Parliament

towards innovating markets to enable the adoption of DLT. This has been supported by the government and the financial services regulators through the creation of the Digital Securities Sandbox (DSS). Parts of the sector, including firms which already purchase UK government debt, have highlighted the important role that large securities issuers, such as sovereigns, can play in supporting innovation through issuing digital assets. Such pilot issuances of digital assets is expected to build awareness of the technology, as well as to demonstrate how liquidity could be brought to DLT markets to attract the widest range of investors.

5. The DMO's "Approved Group" is a facility that allows UK retail investors to buy and sell gilts via the secondary market; typically, it has been used for small-sized transactions. It is important to note that a considerably wider range of investors, both retail and institutional, purchase UK government debt. Decisions have not been made on what investors can access this pilot.

Technological and financial considerations of the pilot

6. The government, as set out in the Economic Secretary's written statement, has stated that it is engaging with the financial services sector on "what an issuance could look like and what technology options are available to facilitate an issuance". This includes engaging with DLT platform providers and assessing potential features of an issuance, such as size and maturity. The DLT platform will be expected to support the life cycle of a DIGIT from issuance to maturity. At this stage, it is too early to determine which distributed ledger platform will be used to issue the DIGIT.

7. The Government does not intend to issue DIGIT onto centralised ledgers as the UK has a well-established and world leading government debt management programme that already uses these systems, such as our gilt issuance programme. The pilot DIGIT issuance will enable us to explore this new technology and be independent of our existing debt management programme.

Costs and skills required

8. The development of financial market infrastructure will be led by private sector entities which provide services that enable financial markets to operate. The Government does not intend to develop its own DLT platform, rather become an issuer on a platform operated by a private sector entity. Our engagement with the sector will be to understand what services could be provided to support the DIGIT issuance.

Measure of success

9. The pilot is an experimental issuance which will take place within the DSS. It will involve the development and delivery of a government debt instrument, a DIGIT, where its life cycle will be tested on a DLT platform. The results of the pilot will help inform the government's

wider considerations as to how this technology could apply to the debt issuance process, should there be a more significant move towards digital asset adoption in the future. The issuance also aims to highlight the government's commitment to supporting innovation in the financial sector and to support the wider development of this technology.

I am copying this letter to James Bowler, Permanent Secretary of HM Treasury, and Jessica Pulay, Chief Executive of the DMO.

Yours, Rachel Reeves

RT HON RACHEL REEVES MP
Chancellor of the Exchequer