

ICMA’s response to HMT’s and the UK DMO’s Announcement of Preliminary Market Engagement Exercise for the Digital Gilt Instrument (DIGIT) Pilot

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Introduction

ICMA welcomes the opportunity to respond to HMT’s and the UK DMO’s [Announcement of Preliminary Market Engagement Exercise for the Digital Gilt Instrument \(DIGIT\) Pilot](#).

The International Capital Market Association (ICMA) is the trade association for the international capital market with over 610 member firms from 70 jurisdictions globally, including issuers, banks, asset managers, central banks, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. ICMA prioritises three core fixed income market areas – primary; secondary; repo and collateral; with cross-cutting themes of sustainable finance and fintech & digitalisation.

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ICMA DLT Bonds Working Group

ICMA’s response reflects the views of a subset of its [DLT ICMA DLT Bonds Working Group](#), which includes issuers, banks, investors, market infrastructures, law firms, data providers as well as technology providers across the spectrum of international debt capital markets. Since its inception in 2022, the Working Group has issued the following guidance as well as resources:

- [DLT Bonds Reference Guide](#) (December 2024)
- [Contributions to the Guardian Fixed Income Framework](#) (November 2024)
- [Considerations for risk factors and disclosure in DLT bond offering documents](#) (November 2023)
- [ICMA FAQs on DLT and blockchain in bond markets](#) (September 2022)

ICMA’s response relates to select “market engagement questions” of non-commercial nature on the design of a Digital Gilt Instrument (DIGIT) and also includes broader considerations. Given that a majority of questions are targeted at the offering of individual firms, we have encouraged constituents across ICMA’s global membership to respond individually to those questions.

Executive summary:

- (i) Investor demand for a DIGIT will be dependent on the characteristics of a DIGIT, individual investors’ strategies, cost-benefit considerations, as well as the ‘DLT readiness’ of investors’ custodians and subcustodians, amongst other aspects.

- (ii) While the high-level expectation is that a DIGIT issuance will catalyse the market as a whole and mark the starting point for further issuances, there is no clear consensus amongst different types of investors.
- (iii) As the first sovereign issuance by the UK, DIGIT has the potential to shape the evolution of the DLT-based Gilt market and the wider DLT-based bond ecosystem. DIGIT has an opportunity to address interoperability challenges and build on existing industry initiatives such as ICMA's Bond Data Taxonomy (BDT), to avoid further fragmentation and bridge traditional and DLT-based debt securities.
- (iv) To mitigate the risk of market fragmentation, harmonisation of practices and collaboration on common standards will continue to be critical to foster the development of DLT-based bond markets as a reliable source of funding both for the public sector and the wider economy.

ICMA Contact

Please don't hesitate to contact Gabriel Callsen, Senior Director, FinTech and Digitalisation (gabriel.callsen@icmagroup.org), to discuss further ICMA's response.

ICMA response to select questions – “Design of DIGIT” section

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

ICMA response: Demand for a DIGIT will be dependent on the characteristics of a DIGIT, individual investors' strategies, for example, whether pursuing a “buy and hold” strategy, the incremental costs of participating in the issuance compared to the expected gains, as well as the ‘DLT readiness’ of investors' custodians and subcustodians, amongst other aspects. We have encouraged ICMA's buy-side community to respond directly to this and other relevant questions.

- **What are investors' expectations for DIGIT?**

ICMA response: Investors have to consider a number of legal, regulatory and operational aspects to purchase tokenised debt securities, including custody arrangements, liquidity considerations, fund eligibility as well as operational aspects, as outlined in [ICMA's DLT Bonds Reference Guide](#) (see notably “Investor considerations” section). While there is no clear consensus amongst different types of investors (such as asset managers, pension funds, insurance companies), the high-level expectation is that a DIGIT issuance will catalyse the market development as a whole and mark the starting point for further issuances, enabling investors to capitalise on short-term efforts for the initial issuance and realise greater benefits in the medium to long term.

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

ICMA response: As the first sovereign issuance by the UK, DIGIT has the potential to shape the evolution of the DLT-based Gilt markets and the wider DLT-based bond ecosystem. While we have observed a steady increase in DTL-based debt issuances in the last years, marked by repeat

issuances and a widening scope of participants, DIGIT has an opportunity to address interoperability challenges and build on existing industry initiatives to avoid further fragmentation and bridge traditional and DLT-based debt securities.

A key initiative to promote interoperability and facilitate automation of issuance, trading, settlement and distribution both of traditional debt securities as well as DLT-based securities is ICMA's Bond Data Taxonomy (BDT). In essence, the BDT provides a common language in a machine-readable format of the key economic terms of a debt security irrespective of its form and the underlying technology. This includes terms such as issuance amount, currency, maturity date, interest, but also governing law, applicable selling restrictions and, if applicable, DLT-related information such as the DLT platform operator and LEI, for example. By defining these data elements unambiguously, the BDT promotes straight-through processing (STP) and interoperability between different systems and stakeholders where data is exchanged during a debt security's lifecycle.

The BDT has been adopted or is being implemented by a range of stakeholders to date, including for the issuance of digital green bonds by Hong Kong SAR in February 2024, a multilateral development bank to build an AI prototype to reduce settlement fails and enhance liquidity management of traditional debt instruments, by vendors for the automation of issuance processes, and the ICSDs for an internal modernisation project, amongst others. It also forms a centrepiece of the [Guardian Fixed Income Framework \(GFIF\)](#), published in November 2024, which aims to scale asset tokenisation.

In addition, ICMA has partnered with SWIFT to integrate the BDT into the ISO 20022 messaging standard. ISO 20022 is becoming widely adopted by financial institutions across capital markets for trading, settlement, payments, and reporting processes. This initiative was launched in Q1 and is expected to be completed by Q4 2025.

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

ICMA response: DLT and blockchain have been implemented by market stakeholders in different jurisdictions (eg to increase retail investor participation in APAC, or facilitate funding for unlisted or medium-sized companies in Europe) or market segments such as repo and collateral markets to facilitate intraday funding and liquidity operations¹. The offering of such services complements the existing market. While DLT acts a catalyst for the continuous drive towards digitalisation, DLT adoption by the private sector is driven by commercial reasons and it is important to acknowledge the risk of market fragmentation and divergent approaches which will hamper its development. Harmonisation of practices and collaboration on common standards will continue to be critical to foster the development of DLT-based bond markets as a reliable source of funding both for the public sector and the wider economy.

ENDS

¹ See announcements and transactions on [ICMA's tracker of new FinTech applications](#).