



DIGIT Demystified: Unlocking the UK's Blockchain Bond Revolution

EXTERNAL NOTE

The What, Why, When and How of the UK's Pilot Digital Gilt Issuance

What is DIGIT?

The UK government, via HM Treasury (HMT) and the Debt Management Office (DMO), announced the Digital Gilt Instrument (DIGIT) pilot, a first-of-its-kind issuance of a natively digital Gilt settled on a Distributed Ledger Technology (DLT) platform within the UK's Digital Securities Sandbox (DSS).

IA members are a significant investor in the gilt market, with around £550bn currently allocated to index-linked and conventional UK gilts. Much of this is managed on behalf of institutional investors on a bespoke basis, but investment funds designed for collective investment play a significant role too. These take the form of diversified investment portfolios and those designed exclusively for government bonds. For example, the IA UK Gilts and UK Index Linked Gilts sectors include around 50 investment funds that manage approx. £30 billion

The DIGIT pilot is a significant opportunity. For the UK, in embracing the potential of capital market digitalisation. For capital markets, in taking a novel approach to debt issuance. For the wider professional services cluster in the City and beyond, in supporting the pilot. And for investors, in transacting in a modern and innovative way in an instrument with a stable and reliable return profile.

This brief covers 5 discussion areas:

- (i) The Regulatory Remit: Overview of the DIGIT Pilot including design features
- (ii) The IA's position on DIGIT and what participation offers to investment managers
- (iii) Considerations for members
- (iv) Tax Considerations
- (v) Next Steps

I. Regulatory Remit: Overview of the DIGIT Pilot including design features

The Investment Association

10 Norton Folgate, London, E1 6DB
www.theia.org

© The Investment Association 2026. All rights reserved.

No reproduction without permission of The Investment Association

Innovation and Operations Unit

The DIGIT pilot is defined by clear objectives and mandatory design choices set out in the DIGIT policy paper published in March 2025¹ consultation paper (March Policy Paper). In this section, we explore the Government's initial policy proposal in the March Policy Paper and the subsequent update published on July 2025 by HMT on DIGIT².

1. Government Objectives and Aims

The pilot appears to be driven by two core policy goals:

- *Explore the DLT Lifecycle*: Enable the Government to understand how DLT can be applied across the entire UK sovereign debt issuance process.
- *Catalyst for UK Market Adoption*: Stimulate wider development and adoption of DLT infrastructure across UK capital markets.

2. Design Features

To achieve these aims, HMT has established several design parameters that are to be trialled in the DSS that are set out both in the March Policy Paper and thereafter, the July DIGIT Update:

- **Natively Digital**: DIGIT will be an entirely new, digitally native, transferable security held and managed exclusively on a DLT platform. It will not be a tokenised representation of a traditional Gilt.
- **Regulatory Environment**: The instrument will be issued on a platform operating within the DSS. This is necessary because existing gilt legislation is apparently unsuitable for a digital issuance and requires temporary modification.
- **Separation from Standard Issuance**: DIGIT will be a live but experimental issuance, and separate from the Government's standard debt issuance programme.
- **Tenor**: It will be short-dated, reflecting the preference for early use cases focused on cash and collateral management.
- **On-chain Settlement**: The government will prioritise solutions that allow DIGIT to be settled on DLT. Under the March Policy Paper, the HMT clarified that "given that the use of 'unbacked cryptocurrencies' or stablecoins are not within the scope of the DSS, these solutions will not be available for the purposes of the payment leg of any DIGIT transaction". However, this position has since changed under the Wholesale Financial Markets Digital Strategy³ wherein the government committed to including stablecoins under the DSS. However, we understand from our conversations with HMT that as of now, the DIGIT project under the DSS will not be utilising stablecoins as a means of settlement.
- **Supporting interoperability**: The government says it will look to work with industry, platform providers and existing market infrastructure providers to foster interoperability in supporting access to DIGIT from investors operating in both traditional and DLT markets.

3. HMT Procurement (RFP Context)

Following the market engagement exercise and the update published pursuant to responses received, HMT released an RFP/Tender Notice in October 2025⁴ to select a supplier(s) for the pilot. The proposal requires interested supplier(s) to develop and provide the necessary services to allow HMT to issue, distribute and settle DIGIT as a digitally native note within the DSS and accommodate subsequent lifecycle events. The proposal also includes requirements that concern interoperability functionality and connectivity.

The [Statement of Requirements](#) gives further detail on the potential features of DIGIT:

¹ HMT Policy Paper: [Additional Information and Engagement on the Digital Gilt Instrument \(DIGIT\)](#). 18 March 2025

² HMT Policy Paper: [Digital Gilt Instrument \(DIGIT\) pilot update](#). Published 15 July 2025

³ HMT Policy Paper: [Wholesale Financial Markets Digital Strategy](#). 15 July 2025

⁴ HMT Tender Notice: [Provision of Services for HM Treasury for a Pilot Digital Gilt Instrument \(DIGIT\) issuance](#). 7 October 2025

- DIGIT will be short-dated.
- Made available through regulated markets and GEMMs, OTC and via MTFs & OTFs.
- Suppliers should be able to provide primary and secondary market functionality.
- Provision of a settlement solution down to T0
- A facility for using DIGIT as collateral.
- To be run on a private permissioned network.

This tender closed on 17 November 2025, and [Government announced its decision](#) on **12 February 2026**. Key announcements:

- *Appointment of HSBC as the platform provider*
- *Appointment of Ashurst LLP to provide legal services for the DIGIT pilot*

There were no further details on timelines or how the buy-side might be able to use the platform within the DSS to buy DIGIT. We are currently engaging with HMT on a few questions on the operationality of DIGIT including:

- Understanding integration with industry standard trading systems such as Aladdin (not sure if this is captured in feedback so far)
- Integration with CREST
- Minimum ticket size
- Key infrastructure providers and custody/wallet provision

Specifically, the RFP has provided a window what/ how the issuance might look like and specifically, which areas the HMT has a particular focus on.

- *Scope:* The supplier must provide the necessary services to issue, distribute, settle, and accommodate lifecycle events (coupon payments, redemption) for the digitally native note within the DSS.
- *Interoperability:* This is a core technical requirement. The chosen solution must include interoperability functionality to ensure the new market does not become fragmented and can bridge the DLT platform with existing traditional financial market infrastructure.
- *Evaluation Focus:* Technical competency, especially around DLT functionality and connectivity, holds a significant weighting (70%).

II. The IA's position on DIGIT and what participation offers to investment managers

The IA was a key stakeholder in consultation, particularly in providing the buy-side view clarifying that institutional demand hinges on mitigating structural risks inherent to new technology adoption. Portfolio Managers must ensure that the operational model around DIGIT meets the industry's requirements for scale, liquidity, and custody.

IA's Key Requirements and Buy-Side Concerns

Based on the [IA's consultation response](#) (IA DIGIT Response) and broader industry feedback, investor demand for DIGIT is conditional on specific design characteristics and operational clarity:

- **Interoperability:** A critical requirement is seamless interoperability (as noted in the HMT RFP). Investors fear a fragmented market where traditional and DLT securities cannot easily interact or be used interchangeably as collateral. The IA stressed that DIGIT must avoid creating a new siloed ecosystem.
- **Longer tenor:** Demand can also be increased by opening up a longer tenor of issuance, which will enable additional use cases within the secondary market. The ability to post long-term digital gilts as collateral supports various financial transactions, including repo agreements.

- **Settlement:** On-chain settlement is crucial for the success of DIGIT as it ensures atomic settlement, reducing settlement risks and enhancing the overall efficiency of transactions. Currently, we understand that DIGIT will not permit use of stablecoins under the DSS but are exploring other forms of on chain settlement. This is likely to be a service similar to *Fnalty*.
- **Custody and Operational Readiness:** Investor participation is highly dependent on the "DLT readiness" of custodians and sub-custodians. It would be useful to have legal and operational clarity on how DLT-based securities are held, transferred, and governed.
- **Liquidity and Secondary Market:** Secondary market trading is viewed as essential for the pilot's success. The design must ensure robust, transparent, and low-cost secondary activity.
- **Fund Eligibility:** The IA has consistently advocated for the inclusion of all relevant investment vehicles within the scope of the DSS, ensuring that tokenised assets are eligible for holdings across various fund structures. This has since been clarified in [FCA's CP 25/28 on Fund Tokenisation](#).
- **Parity:** Investors require consistency and from a legal, tax and operational perspective, efforts should be made to keep the format as closely aligned as possible with conventional gilt issuance. This familiarity is crucial to ensure a seamless transition and to encourage widespread adoption among investors.
- **Long-Term Issuance Programme:** Investors will need to spend time and resource on familiarisation with DIGIT, adapting systems and operational flows to cater for different functionality. In order to justify such an investment this should be supported by a commitment from the government to issue a series of DIGITs over the long-term, with an intention to ultimately replace conventional issuance. This is a difficult position for the DMO/government to state publicly, but we understand that this is the intention, subject to the level of teething problems with the initial pilot.

As part of IA's DIGIT Response to the HMT, we advocate for a phased approach that facilitates adoption of DIGIT progressively and ensures that the infrastructure, regulatory frameworks, and investor confidence are all aligned with the transition to digital gilts. Market Participants are likely to adopt a bifurcated approach to accommodate the distinct objectives of initial versus subsequent stages. For Day 1 issuance, the primary focus would be on foundational participation and operational readiness, where market participants concentrate on testing the technical connectivity of DLT and ensuring their internal systems can handle basic settlement and holding requirements. Conversely, as the program moves toward further issuances, the strategy must evolve to consider coverage of all aspects of the physical gilt market and how these would transition to digital gilts. This includes integrating digital instruments into secondary market collateral management frameworks, and preparing for the inclusion of digital gilts within mainstream investment indices.

III. Considerations for members

In our discussions with members, we have found appetite and interest for DIGIT at varying scales. However, there appears to be a consistent appetite for these gilts if design conditions are met – particularly on its use for repo transactions. A few considerations for an asset manager on its decision to participate in buying DIGIT under the DSS (in addition to specific considerations to design and features) would be:

1. **Allocate Operational Resources:** The immediate priority is to ensure our custody and middle-office platforms are engaged with DSS participants and prepared to handle a natively digital asset with an on-chain settlement leg.
2. **Assess Operational Compatibility:** Actively engage with DMO, HMT and selected platform provider(s) to influence how DIGIT interacts with traditional systems, particularly concerning collateral management and repo markets.

3. **Monitor Legal Framework:** Track the legal certainty provided by the DSS. Successful pilot activity should lead to permanent legislative/ regulatory changes, reducing legal uncertainty around digital assets.
4. **Rise of MMFs and investment case for DIGIT:** There are now numerous examples of tMMFs listed on regulated digital platforms, some of which may invest in DIGIT. This would be a powerful demonstration of joined up digital markets, where digital securities are packaged into diversified portfolios and delivered to investors in tokenised form, and be a UK innovation success story.

IV. Tax Considerations

The IA in 2025 also established its Tax Aspects of Tokenisation Working Group to work in parallel with the IF 3.0 Lab tokenisation programme. Further to the work of this group, the IA produced a [*'Tax Aspects of Tokenisation Position Paper'*](#) (**Tax Paper**). In summary, the Tax Paper recommends:

- (i) **A Targeted UK Tokenisation Enablement Act:** The Act would not create new incentives or exemptions. Its core purpose would be to ensure tax and regulatory neutrality by confirming that tokenised shares or units of Authorised Investment Funds are treated the same as traditional fund shares or units for tax purposes; and
- (ii) More broadly, the tax framework should follow the same “no new barriers” principle to ensure that moving from traditional securities into tokenised securities will not create new tax frictions or exposures.

To help illustrate how tokenisation interacts with existing UK tax law in practice, the Tax Paper sets out an example case study that examines two regimes—Stamp Taxes and VAT—where the application of current rules to tokenised fund units presents immediate challenges. The case study would help in understanding the e the type of technical complexity that arises across the wider tax system and reinforce the importance of achieving clarity, neutrality and coherence in the UK’s approach.

V. Next Steps

There are few committed milestones and dates for the remainder of the process and so we have added our best estimates for others:

- H2 2026 (IA estimate): First issuance under the DSS
- 2027+: Subsequent issuances
- 2029: DSS ends

Conclusion

The UK’s Digital Gilt Instrument (DIGIT) marks a pivotal step in the evolution of capital markets, offering a natively digital, DLT-settled government bond within a robust regulatory sandbox. This initiative not only signals the UK’s commitment to financial innovation but also provides asset managers with a unique opportunity to participate in a modernised, efficient, and interoperable market infrastructure. DIGIT’s design—prioritising on-chain settlement, interoperability, and operational clarity—addresses key industry concerns and paves the way for enhanced liquidity, reduced settlement risk, and seamless integration with both traditional and digital assets.

For asset managers, investing in DIGIT is more than a technological upgrade; it is a strategic move to future-proof portfolios and demonstrate leadership in adopting next-generation capital market standards. By engaging early, asset managers can help shape the operational and legal frameworks, ensure fund eligibility, and unlock new use cases such as digital collateral and repo transactions.