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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations, which are made under the Financial Services and Markets Act 2023 (c. 29) (“the Act”), provide for the testing of the use of developing technology in the carrying on of financial market infrastructure (“FMI”) activities. These provisions are referred to as a “digital securities sandbox” or “DSS”.

Regulation 3(1) explains the purpose of the Regulations and introduces the expression “DSS”.

Regulation 3(2) lists the types of financial market infrastructure entity that are eligible to apply to participate as a sandbox entrant. Under regulation 3(3) the appropriate regulator may determine that other persons established in the UK may apply to participate as a sandbox entrant.

Regulation 3(4) specifies three categories of person connected with the activities of a sandbox entrant who may participate in the DSS.

Regulation 3(5) lists the types of FMI activity that may be carried on in the FMI sandbox arrangements.

Regulation 3(6) provides for certain ancillary activities to be subject to the FMI sandbox arrangements.

Regulation 3(7) describes the types of instrument that may be used in connection with the FMI activities.

Regulation 3(8) identifies the appropriate regulators.

Regulation 4(1) provides for an application for approval to participate to be submitted to the appropriate regulator.

Regulation 4(2) concerns information that may be required to be submitted by an applicant.

Regulations 5(1) to (3) require the appropriate regulator to determine an application by written notice.

Under regulation 5(4) if an application is varied or rejected, the appropriate regulator must include reasons for doing so in its written notice to the applicant.

Under regulation 5(5), an applicant that is approved to participate in the DSS will be issued with a sandbox approval notice (a “SAN”). The information that the appropriate regulator must include in the SAN is described in regulation 5(5) and what may be included is described in regulation 5(6).

Regulation 5(7) permits a sandbox entrant to apply to the appropriate regulator to modify, suspend or cancel its SAN, and the procedure described in regulation 5(1) to (6) will apply

Regulation 6(1) provides that the relevant enactments specified in the Schedule have effect with the modifications specified in the Schedule in relation to the Bank and the FCA, a sandbox entrant and other persons participating under regulation 3(4).

Regulation 6(2) provides that the appropriate regulator may continue to exercise its powers in connection with the DSS activities of a sandbox entrant or a person described in regulation 3(4) after either of them have ceased to be in the FMI sandbox arrangements, where necessary.

Regulation 6(3) imposes a requirement on sandbox entrants to make the public aware of its participation in the FMI sandbox arrangements.

Under regulation 6(4), the Treasury may impose restrictions on the overall FMI activities or ancillary FMI activities within the DSS.

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

Regulation 7(1) to (3) and (7) confers on the appropriate regulator the power to make rules that apply to a sandbox entrant and persons described in regulation 3(4) for the purpose of implementing and operating the FMI sandbox arrangements.

Under regulation 7(4) to (6) the appropriate regulator may also waive or modify its rules.

Regulation 8 provides that the appropriate regulator may modify technical standards for the purpose of implementing and operating the FMI sandbox arrangements.

Regulation 9(1) requires the appropriate regulator to supervise the operation of the FMI sandbox.

Under regulation 9(2) the appropriate regulator must supervise the performance of individual sandbox entrants, which may include modifying the SAN of a sandbox entrant.

Regulation 10 concerns co-operation between the appropriate regulators.

Regulation 11 requires the appropriate regulators to provide information on the performance of the FMI sandbox arrangements by a specified date to allow the Treasury to satisfy its reporting obligations under section 14(4) of the Act.

Regulation 12(1) provides that the appropriate regulators may exercise certain powers, in addition to existing powers under the relevant enactments, in connection with the implementation and operation of the FMI sandbox. This power extends to modifying, suspending or cancelling a sandbox approval notice.

Regulation 12(3) requires that a sandbox entrant be notified if it is to be affected by a power exercised by the appropriate regulator under regulation 12(1).

Regulation 13 specifies the date on which these regulations are to cease to have effect.

Part 1 of the Schedule specifies the relevant enactments for the purposes described in regulation 6.

Parts 2 to 5 of the Schedule contain modifications to the following relevant enactments: [Regulation \(EU\) No 909/2014](#) of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (“UK CSDR”), the Financial Services and Markets Act 2000 (c. 8), the Companies Act 2006 (c. 46) and the Uncertificated Securities Regulations 2001 (S.I. 2001/3755).

A de minimis impact assessment of the effect of this instrument is available from HM Treasury, 1 Horseguards Road, London, SW1A 2 HQ and is published alongside this instrument on [www.legislation.gov.uk](http://www.legislation.gov.uk).