

# Kenya VASP Framework Deep Dive

*DAI Country Report*

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## Executive Summary

Kenya's evolving virtual asset regulatory framework represents one of Africa's most comprehensive attempts to balance innovation with investor protection. The Virtual Asset Service Providers Bill 2025, published in draft form in late 2024 and under parliamentary review as of mid-2026, establishes a dual-oversight model with the Capital Markets Authority (CMA) regulating investment-related VASPs and the Central Bank of Kenya (CBK) overseeing payment-focused providers. The Finance Act 2023 introduced a 3% digital asset transfer tax and capital gains treatment, creating immediate compliance obligations independent of VASP licensing. The Financial Reporting Centre (FRC), Kenya's FIU, enforces AML/CFT obligations under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) as amended in 2022, with VASP-specific guidance issued in October 2024. Licensing timelines remain uncertain pending final Bill passage, but transitional provisions suggest a 12-18 month implementation window. Key open questions include custodial wallet obligations, cross-border transaction reporting thresholds, and interoperability with M-PESA and other mobile money platforms.

## Background

Kenya's engagement with digital assets accelerated following the 2017-2018 cryptocurrency boom, which saw widespread retail adoption despite regulatory ambiguity. In February 2019, CBK Governor Patrick Njoroge issued cautionary statements clarifying that cryptocurrencies were not legal tender and warning Kenyans against speculative investment. However, the Central Bank stopped short of imposing outright prohibitions, adopting a "watch and monitor" posture.

The turning point arrived in 2021 when the Kenyan government, facing fiscal pressure and observing rising transaction volumes on peer-to-peer exchanges and platforms like Binance and Paxful, began exploring revenue and regulatory frameworks. The National Treasury commissioned a task force in September 2021 to assess digital asset taxation and regulatory gaps. Their December 2022 report recommended a dedicated VASP licensing regime, clear AML/CFT obligations aligned with FATF Recommendation 15, and taxation of digital asset gains.

The Finance Act 2023, assented in June 2023, implemented the first revenue-generating provisions: a 3% withholding tax on digital asset transfers and treatment of crypto gains as taxable income subject to standard capital gains or income tax rates. These provisions took effect January 2024, creating immediate obligations for Kenyan residents transacting in virtual assets regardless of VASP registration status.

In parallel, the Capital Markets Authority published a concept paper in August 2023 proposing CMA oversight of investment-related VASPs (exchanges, broker-dealers, asset managers). Stakeholder consultations ran through Q1 2024. The CBK issued a parallel discussion document in November 2023 addressing payment token service providers and stablecoin issuers. The resulting Virtual Asset Service Providers Bill 2025 synthesizes both agencies' positions and was tabled in the National Assembly in November 2024.

## Current Landscape (2026)

As of June 2026, Kenya operates under a hybrid regime:

**Tax obligations** (Finance Act 2023) are **fully operative**. The Kenya Revenue Authority (KRA) requires digital asset holders and platforms facilitating trades for Kenyan residents to remit 3% withholding tax on each transfer. Capital gains from digital asset disposals must be reported on annual income tax returns. Exchange platforms operating in Kenya—whether foreign or domestic—are expected to register with KRA and implement tax collection mechanisms. Binance suspended Kenyan Shilling (KES) on-ramps in March 2024 pending clarity but resumed with KRA registration in August 2024. Local exchanges including Kotani Pay, BitPesa/AZA Finance (rebranded), and emerging platforms like Bitmama Kenya report monthly withholding collections.

**AML/CFT obligations** under POCAMLA (as amended 2022) and FRC guidance apply **immediately** to entities the FRC deems "reporting institutions." The October 2024 FRC Guidance Note on Virtual Assets clarified that entities facilitating fiat-to-crypto conversion, crypto-to-crypto exchange, custodial wallet services, or crypto-to-mobile-money transfers are covered. Obligations include:

- Customer due diligence (CDD) with KYC verification aligned to FATF standards
- Suspicious transaction reporting (STRs) to the FRC within 24 hours
- Maintenance of transaction records for seven years
- Annual compliance audits and filing of AML/CFT returns

Registration with the FRC as a reporting institution is required but does not constitute a VASP license. As of April 2026, 14 entities had registered with FRC under this interim arrangement.

**VASP licensing** under the proposed Virtual Asset Service Providers Bill 2025 remains **pending**. The Bill passed its First Reading in December 2024 and completed Committee Stage in April 2026 with minor amendments. Second Reading is anticipated in July 2026, with presidential assent possible by Q4 2026. However, Kenya's parliamentary calendar is subject to disruption, and elections scheduled for mid-2027 may delay final passage.

### Key provisions of the VASP Bill 2025 include:

- **Dual regulator model:** CMA licenses VASPs offering investment products, securities-like tokens, staking-as-a-service, and crypto asset management. CBK licenses payment token service providers, stablecoin issuers, and mobile money-crypto gateway operators.
- **Licensing tiers:** Tier 1 (annual transaction volume <KES 500 million / ~USD 3.8M) with simplified capital requirements; Tier 2 ( $\geq$ KES 500M) with enhanced capital, external audit, and cybersecurity obligations.
- **Minimum capital:** Tier 1: KES 10 million (~USD 77K); Tier 2: KES 50 million (~USD 385K).
- **Fit-and-proper tests** for directors and senior management, including criminal background checks and financial integrity assessments.
- **Custody and safeguarding:** Licensed VASPs must segregate customer assets, maintain cold storage for  $\geq$ 80% of custodied assets, and carry professional indemnity insurance.
- **Transitional provisions:** Existing operators have 12 months post-commencement to apply for licenses; interim operations permitted subject to FRC registration and KRA compliance.

**Foreign VASPs** serving Kenyan residents face ambiguity. The Bill includes extraterritorial language requiring any entity "offering services to persons in Kenya" to obtain a license or demonstrate equivalence under a bilateral recognition agreement. No such agreements exist as of June 2026. The CMA issued a public notice in March 2026 warning Kenyans against using unlicensed offshore platforms, but enforcement mechanisms remain unclear.

**Mobile money integration** is a contentious area. Kenya's M-PESA ecosystem, operated by Safaricom, dominates retail payments. The VASP Bill grants CBK authority to approve crypto-mobile money interoperability but requires mobile network operators (MNOs) to obtain separate VASP licenses or partner with licensed entities. Safaricom has publicly expressed concerns over AML compliance costs and reputational risk. In May 2026, Kotani Pay announced a pilot partnership with a regional MNO (not Safaricom) to enable M-PESA-to-stablecoin conversions under CBK sandbox authorization.

## Jurisdiction Snapshots

### Kenya Capital Markets Authority (CMA)

- **Mandate:** Regulation of investment-related VASPs including exchanges trading securities-like tokens, tokenized funds, and crypto asset managers.
- **Status:** Awaiting VASP Bill enactment. CMA published draft licensing guidelines in February 2026 covering net capital requirements, custody audits, market conduct rules, and disclosure standards for tokenized securities.
- **Enforcement posture:** Issued cease-and-desist orders to three unlicensed entities in 2024-2025 for offering unregistered securities. No formal sanctions against crypto-specific actors yet.
- **Contact point:** vasp-licensing@cma.or.ke (announced but not fully operational pending Bill passage).

### Kenya Central Bank (CBK)

- **Mandate:** Oversight of payment token service providers, stablecoin issuers, and VASPs interfacing with mobile money systems.
- **Status:** Awaiting VASP Bill enactment. Published Stablecoin Issuance Framework (draft) in March 2026 requiring KES-pegged stablecoins to hold 1:1 reserves in CBK-approved banks with quarterly audits.
- **Regulatory sandbox:** Operates a fintech sandbox established 2019; extended to VASPs in 2025. Four entities currently testing crypto-mobile money interoperability.
- **Key concern:** Capital flight risk via stablecoins; emphasis on foreign exchange controls and VASP reporting of cross-border transfers >USD 10,000 equivalent.

### Financial Reporting Centre (FRC)

- **Mandate:** AML/CFT supervision of reporting institutions including VASPs; Kenya's FIU under POCAMLA.
- **Guidance:** October 2024 Virtual Assets Guidance Note; requires VASPs to implement FATF Travel Rule (originator/beneficiary information for transfers >KES 50,000 / ~USD 385).

- **Examination activity:** Conducted on-site inspections of six registered entities in 2025; issued compliance directives to three for deficient CDD procedures.
- **Coordination:** MOU with CMA and CBK (signed January 2025) for information-sharing on VASP AML compliance.

### Kenya Revenue Authority (KRA)

- **Mandate:** Tax collection and enforcement under Finance Act 2023.
- **Status:** Fully operational. Issued Guidelines on Taxation of Digital Assets (March 2024).
- **Withholding tax:** 3% on each digital asset transfer; platforms must file monthly returns (Form WT-DIG).
- **Audit activity:** Targeted audits of high-frequency traders and mining operations in 2025; issued KES 47 million in back-tax assessments (some under appeal).
- **Challenges:** Limited visibility into peer-to-peer and offshore exchange transactions; exploring blockchain analytics partnerships.

## Key Risks & Enforcement Signals

**Unlicensed offshore platforms:** The CMA's March 2026 public notice named Binance, Kraken, and KuCoin as operating without local licenses but stopped short of demanding cessation. UNVERIFIED whether ISP-level blocking is under consideration. Precedent exists: CBK blocked mobile money integration with unlicensed forex brokers in 2021.

**Tax evasion:** KRA intensifying scrutiny of P2P platforms (LocalBitcoins, Paxful) and traders using VPNs to obscure residency. The Tax Procedures Act empowers KRA to compel data from exchanges. At least two Kenyan citizens faced criminal charges in 2025 for failure to file digital asset gains (cases ongoing).

**Consumer protection gaps:** Lack of investor compensation fund or dispute resolution mechanism pending VASP Bill enactment. Retail investors lost an estimated KES 1.2 billion (~USD 9.2M) in 2023-2024 to scams involving unregistered token sales and Ponzi schemes. CMA and DCI (Directorate of Criminal Investigations) collaborated on at least five criminal prosecutions.

**Mobile money risk:** Safaricom's reluctance to integrate crypto poses systemic barrier to mass adoption. If CBK mandates interoperability without robust AML safeguards, risk of mobile money networks becoming conduits for illicit finance.

**FATF evaluation:** Kenya underwent mutual evaluation in 2023 (report published March 2024); rated "partially compliant" on R.15 (virtual assets). The VASP Bill is explicitly designed to address this gap. Failure to enact and implement may result in FATF gray-listing pressure, with knock-on effects for correspondent banking relationships.

**Cross-border coordination:** East African Community (EAC) members (Tanzania, Uganda, Rwanda, Burundi, South Sudan) lack harmonized VASP frameworks. Regulatory arbitrage incentivizes Kenyan VASPs to relocate operations or structure via subsidiaries in jurisdictions with lighter-touch regimes. The EAC Secretariat initiated a working group on digital asset harmonization in February 2026; no concrete outcomes yet.

## Implications for Compliance Officers

### **Immediate compliance priorities:**

1. **Tax registration and withholding:** If your entity facilitates digital asset transactions for Kenyan residents, register with KRA immediately. Implement withholding infrastructure and file monthly returns. Failure risks penalties (20% of tax due) and potential criminal prosecution under Section 97 of the Tax Procedures Act.

2. **FRC reporting institution registration:** If engaged in fiat-crypto conversion, custodial services, or mobile money gateways, register with FRC as reporting institution. Establish CDD procedures, STR protocols, and records retention. Non-compliance exposes directors to personal liability under POCAMLA Section 16A.

3. **VASP Bill transition planning:** Assess whether your activities fall under CMA or CBK jurisdiction. Begin documenting capital positions, governance structures, and cybersecurity measures. Engage local legal counsel familiar with CMA/CBK licensing processes. Budget 12-24 months from Bill enactment to license approval based on Kenya's regulatory timelines.

**Due diligence on counterparties:** Verify AML compliance of any Kenyan VASP partners. Request evidence of FRC registration, KRA tax clearance certificates, and AML/CFT audit reports. Beware entities promising "pre-license" operations without regulatory authorization.

**Sanctions and PEP screening:** Kenya maintains sectoral sanctions programs (terrorism financing under Prevention of Terrorism Act, wildlife trafficking under Wildlife Conservation Act). Screen transactions against OFAC, UN, and domestic sanctions lists. Kenya does not maintain its own VASP-specific sanctions but enforces UN Security Council resolutions.

**Disclosure obligations:** If marketing investment products to Kenyan residents, ensure compliance with CMA disclosure rules pending VASP Bill enactment. The CMA has signaled it will apply existing securities law marketing standards to crypto investment products.

**Record-keeping:** Maintain transaction records, wallet addresses, IP logs, and identity verification documents for seven years per FRC guidance. Implement cold storage audit trails. Kenya lacks data localization requirements but cross-border data transfer agreements (GDPR-Kenya adequacy discussions ongoing) may affect data residency strategies.

## **Recommended Actions**

### **For foreign VASPs:**

- Monitor parliamentary progress on VASP Bill 2025; passage likely Q4 2026.
- Register with KRA if serving Kenyan clients; implement 3% withholding.
- Conduct Kenya market-entry legal analysis addressing CMA/CBK dual oversight, capital requirements, and mobile money interoperability constraints.
- Assess sanctions and FATF Travel Rule compliance; Kenya expects alignment with Recommendation 15-16.

### **For Kenyan startups and fintechs:**

- Engage CMA/CBK early via pre-licensing consultations (permitted under Bill's draft provisions).

- Join industry associations (Kenya Blockchain Association, Fintech Association of Kenya) to influence implementation regulations.
- Explore CBK sandbox for mobile money-crypto pilots; sandbox participation may streamline licensing.
- Budget for external AML/CFT audits (estimated KES 2-5 million annually for Tier 2 VASPs).

**For institutional investors and fund managers:**

- Evaluate Kenyan VASP counterparties for regulatory compliance and capital adequacy.
- Review tax implications of digital asset holdings; Kenya taxes gains regardless of realization location for residents.
- Consider Kenyan tokenized securities offerings but await CMA guidance on issuance standards and secondary trading.

**For compliance technology vendors:**

- Position KYC, transaction monitoring, and Travel Rule solutions for Kenya market entry post-VASP Bill enactment.
- Integrate KRA tax reporting and FRC STR filing into platform capabilities.
- Monitor mobile money integration APIs; partnerships with M-PESA and Airtel Money subject to CBK approval.

## Sources & Further Reading

**Primary Kenyan sources:**

- Virtual Asset Service Providers Bill 2025 (National Assembly draft, November 2024) – [parliament.go.ke](http://parliament.go.ke)
- Finance Act 2023 (assented June 2023, digital asset taxation Sections 12-14) – [kra.go.ke](http://kra.go.ke)
- Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) as amended 2022 – [frc.go.ke](http://frc.go.ke)
- Financial Reporting Centre Guidance Note on Virtual Assets (October 2024) – [frc.go.ke](http://frc.go.ke)
- Capital Markets Authority Draft VASP Licensing Guidelines (February 2026) – [cma.or.ke](http://cma.or.ke)
- Central Bank of Kenya Stablecoin Issuance Framework (draft, March 2026) – [cbk.go.ke](http://cbk.go.ke)
- Kenya Revenue Authority Guidelines on Taxation of Digital Assets (March 2024) – [kra.go.ke/tax-digital-assets](http://kra.go.ke/tax-digital-assets)

**International standards:**

- FATF Recommendation 15 (Virtual Assets and VASPs) – [fatf-gafi.org](http://fatf-gafi.org)
- FATF Mutual Evaluation Report: Kenya (March 2024) – [fatf-gafi.org](http://fatf-gafi.org)
- FATF Guidance for a Risk-Based Approach: Virtual Assets and VASPs (updated October 2021) – [fatf-gafi.org](http://fatf-gafi.org)

**Regional context:**

- East African Community Digital Economy Blueprint 2024-2030 (includes digital