THE VIRTUAL ASSET REGULATION SERIES

VOLUME 1 — VASP BRIEFING · ARTICLE 2

KENYA'S VASP REGS 2026; COMPLIANCE REQUIREMENTS FOR VIRTUAL ASSETS SERVICE PROVIDERS

Beyond the headlines: the operational presence, separate authorisations, reporting clocks and cross-border reach that a Virtual Asset Service Provider in Kenya must now build for — and the window in which to build it.

T.M.M & PARTNERS ADVOCATES

PRIMARY PROVISIONS

Virtual Asset Service Providers Act, No. 20 of 2025 · The Virtual Asset Service Providers Regulations, 2026 (Legal Notice No. 134 of 2026)

AUGUST 2026

AT A GLANCE

- A licence is not a document — it is an **operating model**. The framework requires a Kenyan office, Kenyan-domiciled management, four named officers, a Kenyan bank account and a Kenyan bank relationship.
- Some activities need a **second authorisation**. Converting virtual assets to or from foreign currency requires separate approval from the Central Bank of Kenya under regulation 14.
- Reporting is **continuous, not periodic**. Monthly capital reports, quarterly financial statements, daily trading reports for exchanges — and daily reconciliation reports for stablecoin issuers.
- Three notification clocks run in **hours and days**: twenty-four hours for a cybersecurity incident, two days for a change during an application, seven working days for a section 25 report.
- The framework reaches **offshore operators** that target Kenyan users, whether or not they have a presence here.
- The transitional window under section 47 closes on **4 November 2026**.

1. A licence is an operating model

Much of the commentary on Kenya's virtual asset framework has focused on what a licence costs. That is the smaller question. The larger one is what a licence requires you to **become**.

A virtual asset business licensed in Kenya is not a website with a Kenyan user base. It is a Kenyan company, limited by shares and registered under the Companies Act, with a physical office in this country where its business activities are carried out, a chief executive officer domiciled here and approved by the regulator, a compliance officer appointed by its board, finance and internal audit functions staffed by members in good standing of the Institute of Certified Public Accountants of Kenya, at least three directors, an operating bank account with a Kenyan bank, and insurance placed with a Kenyan-licensed insurer.

For a domestic start-up that is a significant build. For an offshore platform accustomed to serving Kenyan customers from elsewhere, it is a different business model altogether.

1.1 The people you must have

Role	Requirement	Source
Chief executive officer	Appointed or designated, approved by the regulator, fit and proper, professionally competent in virtual assets or a relevant field, and **domiciled in Kenya**.	s.30 Act; r.44

Role	Requirement	Source
Compliance officer	Appointed by the board; must not be involved in any function that is itself the subject of compliance monitoring.	r.39
Finance officer	Member in good standing of ICPAK or a recognised equivalent international body.	r.45
Internal auditor	Same professional standing requirement as the finance function.	r.45
Board of directors	At least three directors. A director may not serve on more than two boards of licensees under the Act.	s.20(1) Act

1.2 The infrastructure you must have

- **A physical office in Kenya** where business activities are carried out (section 19 of the Act), and premises or data solutions the regulator considers suitable for accessing and retaining records (section 10(6)(h)).
- **A Kenyan bank account**, opened and operated for the purposes of the Act (section 24(h)).
- **Insurance** commensurate with the risk and scale of the business, held with an insurer licensed in Kenya or one approved by the regulator in consultation with the Insurance Regulatory Authority, and covering cybersecurity risk, theft, loss of keys and operational failure (regulation 88).
- **Nine board-approved policies** — risk management, AML/CFT/CPF, data protection and privacy, cybersecurity and information technology, complaints management, market conduct, consumer protection, conflict of interest, and business continuity and disaster recovery (regulation 6(2)(f)).

2. One licence may not be enough

Two features of the framework catch businesses that assume a single licence covers everything they do.

2.1 Conversion to and from foreign currency

Regulation 14 requires a person seeking to transact the business of **converting virtual assets to or from foreign currency** to apply to the Central Bank of Kenya for authorisation **before commencing that business**. This is a distinct authorisation from the licence, determined by the Central Bank within ten days of its decision, expiring on 31 December of the year of issue and renewable annually on an application lodged at least two months before expiry.

Operating conversion business without that authorisation attracts the administrative sanction in regulation 142.

2.2 Capital stacks across activities

Regulation 85(6) provides that a licensee authorised to carry out more than one permissible activity must hold the paid-up capital applicable to the **highest-capital category**, plus **fifty per cent** of the paid-up capital for each additional activity.

> **WORKED EXAMPLE**
>
> A platform offering custodial wallet services, exchange and brokerage holds: KSh 150,000,000 (wallet, the highest category) + KSh 50,000,000 (fifty per cent of exchange) + KSh 5,000,000 (fifty per cent of broker) = **KSh 205,000,000** in paid-up capital, before any working capital at all.

3. Reporting is continuous

The framework does not operate on an annual return. It runs on a rolling schedule that in some cases is measured in days.

Obligation	Frequency	Source
Capital adequacy or liquidity reports	Monthly	r.92(b)
Financial statements	Quarterly, by the tenth day of the following month	r.92(a)
Listings, suspensions and delistings; daily trading reports; transaction volumes and price movements	Monthly, by the tenth day, for exchanges and token issuance platforms	r.93
Assets under management reports	Quarterly, within fifteen days of quarter end	r.94(a)
Stablecoin holder numbers, circulation, reserve composition and de-pegging events	Monthly, by the tenth day	r.84(1)
Stablecoin reconciliation of transactions, issuance and reserve assets	**Daily**	r.84(2)
Audited annual financial statements	Within three months of financial year end	r.92(c); s.29 Act
Material events affecting solvency, valuation or consumer protection	Promptly	r.92(d)

Sources: Virtual Asset Service Providers Regulations, 2026; Virtual Asset Service Providers Act, No. 20 of 2025.

The daily obligation on stablecoin issuers under regulation 84(2) deserves particular attention. It requires submission to the Central Bank of Kenya, **on a daily basis**, of reconciliation reports covering the average number and aggregate value of transactions per day, the stablecoin issued, and the reserve assets. That is a systems requirement, not a compliance-team requirement, and it must be designed in from the outset.

4. The clocks that run in hours

Three notification obligations run on very short timescales, and each requires a standing internal process rather than an ad hoc response.

Trigger	Deadline	Source
A cybersecurity incident discovered as a result of a cybersecurity event; also material incidents, loss of keys or unauthorised transactions	**24 hours**, with a detailed report within five working days	r.99(1), (2), (4)
Any proposed alteration to information in a pending application, or the occurrence of a material event affecting it	**2 days**	r.9(1)
Written report following a section 25 notification by the chief executive officer	**7 working days**	s.25(2) Act
Auditor's report qualified on completeness or accuracy of accounting records	**7 days**, reported by the auditor	r.91

The section 25 duty is worth isolating. It falls personally on the **chief executive officer**, who must notify the regulator on becoming aware of, or having reason to believe, any of eleven matters — insolvency or likely insolvency, non-compliance with the Act, criminal proceedings anywhere in the world, material changes to the business including banking arrangements, likely ownership changes, pending civil suits, cessation of business, resignation of directors or senior officers, and cybersecurity incidents among them.

5. The framework reaches offshore

> *For purposes of subregulation (1), a person is deemed to be operating "in or from Kenya" where that person actively solicits or targets local consumers, or derives an economic benefit or income from Kenya, regardless of whether the person has physical presence in Kenya or not.*
>
> — **REGULATION 4(2)**

The test has two independent branches. **Active solicitation or targeting** of Kenyan consumers is one. **Deriving economic benefit or income** from Kenya is the other. Either is sufficient, and neither requires a Kenyan entity, office or server.

For an offshore platform with Kenyan users, the practical consequence is a strategic decision rather than a compliance task: either establish in Kenya and meet the operational presence requirements in section 19 and Part IV of the Regulations, or take deliberate steps to cease targeting and deriving income from this market. Continuing as before is the one option the framework does not leave open, given the offence in section 8 of the Act.

6. What is required before you can apply

Several application requirements have long lead times, and they are the ones that most often set the critical path.

1. **An independent information systems audit**, including a vulnerability assessment and penetration test, prepared by a person holding the relevant qualifications and competences (regulation 6(2)(l)). Testing then continues **bi-annually during the first year of licensing and at least annually thereafter** (regulation 97(4)(a)).
2. **Audited financial statements for three years** preceding the application, or verified opening statements for a newly incorporated applicant; and where the applicant is a subsidiary of a foreign parent, the parent's audited consolidated statements for three years (regulation 6(2)(i), (j)).
3. **A business plan** prepared in accordance with the Third Schedule, and a **fit and proper assessment** in the form of the Fourth Schedule for every director, senior officer, significant shareholder and beneficial owner (regulation 6(2)(b), (c)).
4. **Evidence of paid-up and liquid capital** at the levels in the Fifth Schedule — capital that must be unencumbered, unpledged and not raised through borrowed funds (regulation 85(5), (8)).
5. **Full disclosure of cross-border operations, affiliates and regulatory status** in other jurisdictions (regulation 6(2)(m)).

Regulation 6(4) gives the relevant regulatory authority thirty days from receipt of all required documents and completion of its due diligence to determine the application. The applicant may also be required to attend an interview (regulation 6(3)).

7. The window

Section 47 of the Act requires any person providing virtual asset services at commencement to comply within one year of commencement. The Act commenced on 4 November 2025. The Regulations that specify what compliance requires were gazetted on 22 July 2026.

> **THE POSITION AS AT PUBLICATION**
>
> The transitional period expires on **4 November 2026**.
>
> From 5 November 2026, carrying on the business of virtual asset services in or from Kenya without a licence is an offence under section 8(3) of the Act, punishable on conviction by a fine not exceeding **KSh 25 million** for a company, or **KSh 10 million or five years' imprisonment** for an individual.
>
> Section 41 extends liability to any director, partner or senior officer who knowingly authorised, permitted or aided the contravention.

Businesses in the sector should be treating the remaining period as a project with a fixed end date: confirm whether the activity is licensable, identify the correct category and regulator, model the capital requirement including any stacking under regulation 85(6), commission the information systems audit, recruit and secure approval for the required officers, draft the nine policies, and lodge the application with the full documentary set.

8. How we can help

T.M.M & Partners Advocates advises on the Virtual Asset Service Providers Act, 2025 and the Regulations, 2026 — licence categorisation and applications, capital and governance structuring, the nine mandatory policies, AML/CFT compliance under the Proceeds of Crime and Anti-Money Laundering Act, data protection alignment, and engagement with the Capital Markets Authority and the Central Bank of Kenya.

This briefing forms part of our Virtual Asset Regulation Series; an article examination of the framework published across several volumes.

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This article is published by T.M.M & Partners Advocates for general information. It explains provisions of the Virtual Asset Service Providers Act, No. 20 of 2025 and the Virtual Asset Service Providers Regulations, 2026 (Legal Notice No. 134 of 2026) as at 10 August 2026 and does not take account of any subsequent amendment. It is not legal advice and no advocate–client relationship arises from reading it. Any person affected by these provisions should obtain advice on their specific circumstances.

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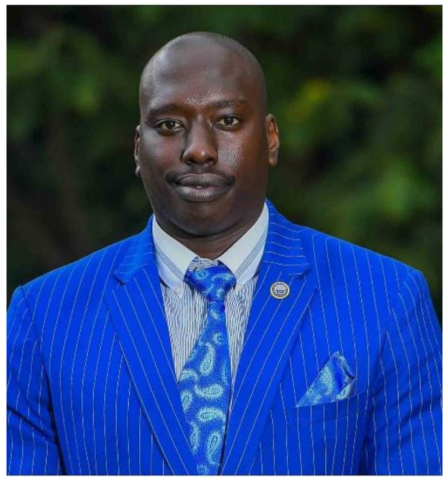
CONTACT US

Speak to our team

For advice on the Virtual Asset Service Providers Act, 2025 and the Regulations, 2026 — licensing, capital and governance requirements, AML/CFT compliance, or engagement with the Capital Markets Authority and the Central Bank of Kenya — please contact:



Theophilas M. Matundura

MANAGING PARTNER

theo@tmmadvocates.ke

Robert S. Muoka

SENIOR PARTNER

robert@tmmadvocates.ke

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www.tmmadvocates.ke · **info@tmmadvocates.ke**

Theophilas M. Matundura *LLB. Hons UoN. Dip. KSL*
Brian M. Maera *LLB. Hons UoN. Dip. KSL*
Robert S. Muoka *LLB. Hons UoN. Dip. KSL*
William Mathenge *LLB. Hons UoN. Dip. KSL*
Benedict .O. Odhiambo *LLB. Hons UoN. Dip. KSL*
Marvin Obara Lukano *LLB. Hons UoN. Dip. KSL*

+254 703 480 154 // +254 725 514 489
+254 728 178 883 // +254 723 268 066
+254 741 480 122 // +254 740 395 467

KMA CENTRE, BLOCK A, 3rd Floor,
Suite 3.1, Mara Road,
Upperhill Nairobi, Kenya

info@tmmadvocates.ke

www.tmmadvocates.ke