LEGAL ALERT

Virtual Assets & Fintech

KN LAW LLP

The Virtual Asset Service Providers Regulations, 2026

The new licensing framework for virtual asset businesses

Overview

Executive summary

Kenya's Virtual Asset Service Providers Regulations, 2026 (the Regulations) were gazetted as Legal Notice No. 134, published in Kenya Gazette Supplement No. 185 of 22 July 2026, and made by the Cabinet Secretary for the National Treasury on 3 July 2026 under section 49 of the Virtual Asset Service Providers Act, 2025 (the Act).

The Regulations establish a licensing, governance, capital, consumer protection, cybersecurity and enforcement regime for virtual asset businesses operating in or from Kenya. The regime covers exchanges, wallet providers, brokers, payment processors, investment advisers, virtual asset managers, tokenisation platforms, ICO providers and stablecoin issuers. We set out below the provisions we consider most likely to affect businesses in the sector and our comments on their practical effect.

Commencement. The Regulations took effect on gazettement on 22 July 2026.

Existing service providers have until **4 November 2026** to comply with the licensing requirements under the Act and the Regulations. Businesses currently providing virtual asset services should assess their licensing, governance, capital and compliance readiness as early as possible.

Five key provisions businesses should note:

1. The Regulations apply to a business if it targets Kenyan consumers or derives an economic benefit or income from Kenya, whether or not it has any physical presence in the country.
2. The Central Bank of Kenya authorises conversion of virtual assets to or from foreign currency, while the Capital Markets Authority determines exchange, Initial Coin Offering (ICO), tokenisation and trading-platform applications.
3. Paid-up capital requirements range from NIL for investment advisers to KES 300 million for stablecoin issuers, with liquid capital requirements set separately for each category.
4. Boards must have at least three members, one-third of whom must be independent, and the chief executive officer must be domiciled in Kenya.
5. Share transfers of more than 10% of a licensee require prior regulatory approval, while transfers of 10% or less require advance notification.

A. Scope and jurisdiction

Regulation 4 applies the Regulations to a person offering virtual asset services who targets local consumers, or derives an economic benefit or income from Kenya, regardless of whether that person has a physical presence in Kenya.

> **Implication:** Businesses serving Kenyan users from abroad are affected even though they have no local incorporation and no local establishment. Whether a business falls within Regulation 4 is therefore the threshold question and it should be settled before any work is done on how the substantive requirements apply.

B. Licensing pathway and regulatory mapping

1. No single regulator

Regulatory oversight is divided between regulators according to the activity in question. The Central Bank of Kenya authorises conversion of virtual assets to or from foreign currency, while the Capital Markets Authority determines applications for initial coin offerings, tokenisation and trading platform approvals.

> **Implication:** A business with more than one activity line will need to identify the correct authority for each of them when the structure is being settled.

2. Documentation-heavy applications

Applicants must file a business plan, proof of source of funds, systems and controls descriptions, operational policies, capital and liquid capital evidence, financial statements, and human and technology resource evidence. The relevant regulatory authority may also require interviews and may reject applications for non-responsiveness, weak AML/CFT capability, governance failings, adverse compliance history or public interest concerns.

> **Implication:** An application is unlikely to succeed unless the governance documents, technology controls and operational procedures are in final form at the time of filing. That preparatory work needs to be done before the application is submitted, rather than in response to queries from the regulator afterwards.

3. Twelve-month window to commence business and restriction on transfer of licence

Regulation 8 requires a licensee to commence its virtual asset business within twelve months of the grant of a licence. Regulation 13 further restricts a licensee from transferring or assigning its licence unless it has commenced business, held the licence for at least thirty-six months from commencement and otherwise complied with the Regulations.

> **Implication:** A licensee that fails to commence business within 12 months of the grant of its licence risks regulatory action. Businesses should align their licensing timetable with their anticipated launch date. Businesses should further take the restriction on transfer into account when structuring acquisitions, disposals, reorganisations and related transactions involving licensed virtual asset businesses.

C. Capital, liquid capital and fees

1. Paid-up capital

The Regulations provide the following paid-up capital requirements for the different types of businesses:

- Wallet provider: KES 150,000,000.
- Exchange: KES 100,000,000.
- Payment processor: KES 10,000,000.
- Broker: KES 10,000,000.
- Investment adviser: NIL, although they must hold professional indemnity cover of at least KES 1 million.
- Virtual asset manager: KES 20,000,000.
- ICO offering provider: KES 20,000,000.
- Tokenisation offering provider: KES 10,000,000.
- Token issuance platform: KES 20,000,000.
- Stablecoin issuance: KES 300,000,000.

Liquid capital is set separately for each category, generally as the greater of a fixed sum or a percentage of liabilities.

> **Implication:** Stablecoin issuers and wallet providers are subject to the highest capital and liquidity requirements under the Regulations. Investment advisers, on the other hand, are exempt from the paid-up capital requirements but must maintain the prescribed professional indemnity cover. Businesses should assess both the applicable paid-up capital and liquid capital requirements before selecting a licence category.

2. Application, licence, renewal and approval fees

Application fees are set generally at KES 100,000, save that virtual asset managers will be required to pay KES 50,000 and investment advisers KES 10,000. Licence fees range from KES 100,000 for virtual asset brokers to KES 2,000,000 for stablecoin issuers.

Renewal fees apply separately and for certain licence categories, including exchanges and stablecoin issuers, are linked to turnover or assets under management and will, for most licensees in those categories, be the largest recurring regulatory cost. ICO and tokenisation approvals attract a fee of 0.25% of the value of the successful offer, subject to a KES 200,000 minimum and a KES 30 million cap.

3. Businesses with multiple activities

Where a licensee is authorised for more than one activity, it must hold the paid-up capital applicable to the highest-capital category plus fifty percent of the paid-up capital for each additional activity.

> **Implication:** A group intending to hold several permissions in a single entity should model the aggregate capital requirement before settling on that structure.

4. Stablecoin issuers

Stablecoin issuers are subject to a separate regulatory framework administered by the Central Bank of Kenya. Among other requirements, stablecoins must be fully backed by reserve assets, holders must have redemption rights at par value, and issuers may not pay interest or similar returns to stablecoin holders. The Regulations also impose custody, reporting and reserve management obligations. The Central Bank of Kenya may also direct licensed intermediaries to restrict access to, or trading in, stablecoins issued outside Kenya where it considers this necessary for financial stability or consumer protection purposes.

> **Implication:** Stablecoin issuance is subject to a more prescriptive regulatory regime than most other virtual asset activities. Businesses considering stablecoin issuance should assess the applicable reserve asset, custody, redemption, reporting and capital requirements at an early stage and the Central Bank of Kenya supervisory requirements under the Regulations.

D. Governance and ownership

1. Board composition

The board of a licensee must have at least three members, of whom at least one-third must be independent directors, and not more than one-third may be related to any director. The chairperson may also not serve as chief executive officer.

2. Fit and proper and local presence

Fit and proper information is required for directors, senior officers, significant shareholders and beneficial owners. A significant shareholder is a person holding, directly or indirectly, more than 10%

of a licensee's share capital. The chief executive officer must, among other requirements, be domiciled in Kenya.

3. Ownership changes.

A person acquiring, transferring or disposing of up to 10% of shares or an interest in a licensee must notify the relevant regulatory authority in advance. Transactions exceeding 10% require prior approval, which is given having regard to the suitability of the proposed acquirer, its ability to conduct the business over the longer term, and the manner in which the transaction is to be financed.

E. Consumer protection, market conduct and advertising

1. Disclosure and complaints.

Licensees must make pre-transaction disclosures on licence status, services, risks, fees, conflicts, withdrawal and cancellation procedures, security protocols, business continuity measures and material operational changes, and must maintain complaints procedures.

2. Safeguarding of consumer assets.

The Regulations require safeguarding and segregation of consumer assets, clear consumer service agreements, and prohibit contractual dilution of a licensee's duties to consumers.

3. Market conduct offences and advertising.

Insider trading, market manipulation, false trading, fraudulent inducement, front-running, churning and cold calling are prohibited. Advertising is also subject to content rules, performance-information limits, fee disclosure requirements, risk warnings and restrictions on internet marketing practices.

F. Enforcement and penalties

1. Enforcement powers

The relevant regulatory authority may inspect, require information, intervene in management, appoint a statutory manager, issue freezing and seizure orders, and oversee voluntary and involuntary liquidation.

2. Penalties

Criminal sanctions under Regulation 143 (covering false or misleading statements, market abuse offences and related contraventions) are capped at KES 5 million or five years' imprisonment for an individual, and KES 8 million for a company.

Administrative sanctions under Regulation 142 (covering a defined list of other contraventions, including business continuity and cybersecurity failings) are capped at KES 3 million for an individual and KES 5 million for a company, in addition to suspension, revocation or remedial directions.

3. Coordination Forum

A Coordination Forum chaired by the National Treasury draws together twenty bodies, including the Central Bank of Kenya, the Capital Markets Authority, the Asset Recovery Agency, the Ethics and Anti-Corruption Commission, the Financial Reporting Centre, the Directorate of Criminal Investigations, the National Intelligence Service, the Office of the Director of Public Prosecutions and the Kenya Revenue Authority.

> **Implication:** The breadth of the Forum's membership signals that supervision of this sector is intended to be joined up across financial crime, cyber, intelligence, tax and enforcement bodies.

Conclusion

The effect of the Regulations is that market entry, prudential standing, technology risk and financial crime controls are now assessed together as part of a single licensing exercise.

For most businesses the sensible next step is a readiness review, which would map the proposed activities against the licensing categories in the Fifth Schedule, identify the regulator for each of them, test the existing ownership and governance structure against the control thresholds, and establish whether the policies, systems and capital are in place to support an application.

ABOUT KN

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