

INSIGHT

Kenya's VASP Regime & the FATF Grey List

From Licensing to Proof

In our previous publication, we examined the [Virtual Asset Service Providers Regulations, 2026 \(the Regulations\)](#), which operationalise the Virtual Asset Service Providers Act, 2025 (the VASP Act). Most commentary has focused on licensing and market access. The framework matters for another reason too: it closes one of the gaps that led the Financial Action Task Force (FATF) to place Kenya on its list of "Jurisdictions under Increased Monitoring", commonly known as the "grey list".

As part of our virtual assets series, this publication considers whether regulating virtual assets is enough to help Kenya exit the grey list.

Why Virtual Assets became a Grey-List Issue

Kenya was grey-listed in February 2024, following a mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group adopted in September 2022. The evaluation found strategic weaknesses across Kenya's anti-money laundering and counter-terrorist financing (AML/CFT) regime, including weak supervision of designated non-financial businesses and professions, gaps in beneficial ownership transparency, limited use of financial intelligence, and too few money laundering investigations and prosecutions.

Virtual assets were a distinct strand of that assessment. Kenya had no framework for licensing or supervising virtual asset service providers (VASPs), leaving a fast-growing sector outside the AML/CFT perimeter. Kenya's FATF action plan therefore required it to adopt a legal framework for licensing and supervising VASPs.

The VASP Act and the Regulations fill that gap. Licensed VASPs are now subject to customer due diligence, transaction monitoring, suspicious transaction reporting and the other obligations that have long applied to traditional financial institutions. The Regulations also reach offshore providers that actively target Kenyan users or derive economic benefit from Kenya, whether or not they have a physical presence in Kenya. Existing operators must be licensed by 4 November 2026.

Regulation is only the First Step

FATF has recognised this progress. Its February 2026 statement noted that Kenya had adopted a legal framework for licensing and supervising VASPs, and the requirement no longer appears among Kenya's outstanding action items. However, FATF has not treated that step as resolving Kenya's position. Its June 2026 statement, which came before the Regulations were gazetted, keeps Kenya under increased monitoring and lists seven outstanding items:

- improving risk-based AML/CFT supervision of financial institutions and designated non-financial businesses and professions;
- improving understanding of preventive measures, including increasing suspicious transaction reporting;
- designating an authority to regulate trusts and collect accurate, up-to-date beneficial ownership information;

- improving the use and quality of financial intelligence;
- increasing money laundering investigations and prosecutions in line with risk;
- bringing the targeted financial sanctions framework into line with FATF Recommendation 6; and
- revising the oversight of non-profit organisations so that it is risk-based and does not disrupt legitimate activity.

The Financial Reporting Centre (FRC) recently informed Parliament that Kenya has addressed 19 of its 21 action items and is targeting an exit from the grey list by April 2027. However, this reflects Kenya's own assessment of its progress rather than a formal FATF determination.

The above list reflects FATF's distinction between technical compliance and effectiveness. While legislation can close regulatory gaps, delisting ultimately requires evidence that the framework is being applied and is producing results. According to data from the FRC, as reported by the Business Daily, the number of suspicious transaction reports increased by 18.8%, rising from 8,057 in 2024 to 9,571 in 2025, while disseminations to law enforcement agencies reached 260 over the same period.

However, prosecutions and forfeitures remain modest relative to the size of the financial system. For example, of the 51 intelligence reports handled by the Asset Recovery Agency, only two forfeitures were pending in court. Commentators have also raised concerns about inconsistent judicial follow-through, including the lifting of freezing orders and bail terms that undermine asset recovery efforts.

Lessons from other Jurisdictions

Recent African exits make the same point. FATF removed South Africa, Nigeria, Mozambique and Burkina Faso from the grey list in October 2025, and Algeria and Namibia in June 2026. In each case, legislative reform was followed by demonstrated implementation and a FATF on-site visit confirming that the reforms were working in practice.

The UAE is the most relevant example for virtual assets. Grey-listed in March 2022, it introduced a dedicated virtual asset regime alongside broader AML/CFT reforms and backed it with visible supervision and enforcement. According to media reports, fines exceeding AED 115 million were issued in Q1 2023 and asset confiscations exceeding AED 925 million were made between November 2022 and February 2023. The UAE was removed in February 2024, at the same plenary that grey-listed Kenya. Its virtual asset law was one part of a wider, demonstrable enforcement programme.

Mauritius offers an African comparison. Grey-listed in February 2020, it was removed in October 2021 following an on-site visit in September 2021. Its reforms were supported by stronger investigative capacity, more domestic and international prosecutions (including parallel financial investigations) and stronger AML supervision. The UK and the EU then removed Mauritius from their lists of high-risk third countries, a reminder that FATF status drives other countries' enhanced due diligence requirements and, in turn, correspondent banking relationships.

Across these exits, three features recur:

- (a) clear institutional ownership of enforcement;
- (b) verifiable data on fines, prosecutions, convictions and asset recovery; and
- (c) an FATF on-site visit confirming implementation.

For Kenya, the VASP Act and the Regulations satisfy the legislative requirement for virtual assets, but the other deficiencies remain open. Delisting is also not the end of the effectiveness test, FATF expects recently delisted countries, such as South Africa, to keep working with it and the Eastern and Southern Africa Anti-Money Laundering Group to sustain their improvements.

Looking Ahead

The VASP Act and the Regulations are genuine, substantive progress against one of FATF's original criticisms of Kenya and should strengthen Kenya's position when its progress is next reviewed. Exit, however, will turn on the effectiveness of supervision, enforcement and AML/CFT outcomes across the wider financial system. For the virtual assets sector, the focus now shifts from rulemaking to implementation, and from licensing to proof.

How We Can Help

Our banking and finance, fintech and regulatory teams advise clients on the VASP Act and the Regulations, including licensing strategy, structuring banking relationships, AML/CFT compliance frameworks, and engagement with the Central Bank of Kenya, the Capital Markets Authority and the FRC.

CONTACTS

Should you require more information about this series, please do not hesitate to contact:



Sonal Tejpar
Partner

sonal.tejpar@aln.africa



Shellomith Irungu
Partner

shellomith.irungu@aln.africa



James Mungai
Senior Associate

james.mungai@aln.africa



Abdulrahman Faiz
Associate

abdulrahman.faiz@aln.africa

The content of this publication is intended to be of general use only and should not be relied upon without seeking specific legal advice on any matter. For information on how we handle personal data, please see our [Privacy Notice](#).