



# Legal Alert

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## Salient Features of the Capital Markets (Licensing Requirements) (General) Regulations, 2025

**The growth of financial technology, the emergence of digital investment platforms, and the need to align Kenya's capital markets with international best practices necessitated a comprehensive overhaul of the capital markets licensing regime**

### Introduction

The Capital Markets (Licensing Requirements) (General) Regulations, 2002 (the “2002 Regulations”) have served as the principal regulatory framework governing the licensing and operations of market intermediaries for two decades since their enactment. However, the growth of financial technology, the emergence of digital investment platforms, and the need to align Kenya’s capital markets with international best practices necessitated a comprehensive overhaul of the capital markets licensing regime.

On 11 December 2025, the Capital Markets Authority (the “CMA”) published the Capital Markets (Licensing Requirements) (General) Regulations, 2025 (Legal Notice 197 of 2025) (the “2025 Regulations”). The 2025 Regulations revoked the 2002 Regulations and introduced a licensing framework that addresses gaps in the prior regime, including the regulation of digital platforms, strengthened capital requirements for certain categories of licensees, and new categories of market participants.

This legal alert highlights the key changes introduced by the 2025 Regulations and the considerations that affected market participants should be aware of.

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## Highlights of the 2025 Regulations

The key highlights of the 2025 Regulations include the following:

### 1. Introduction of new licensee categories

Under the 2002 Regulations, the recognised categories of licensees comprised securities exchanges, stockbrokers, dealers, investment advisers, fund managers, investment banks, and authorised securities dealers. The 2025 Regulations have expanded the categories of licensees to include the following new categories:

- a) **Broker-dealers** - A combined license that allows a person to engage in the business of a stockbroker, a dealer, and/or promoting or arranging underwriting of issuance of securities.
- b) **Over-the-Counter (OTC) Platforms** - A trading system with multiple user access that allows trading of commodities, currencies, securities (whether listed or not), or other instruments directly between
- c) **Intermediary Service Platform Providers** - Operators of digital applications (or otherwise) which facilitate aggregation, marketing, and distribution of capital markets products and services (excluding crowdfunding platforms).
- d) **Custodians** - This was previously addressed as part of other licensee obligations in regulation 34 of the 2002 Regulations but is now a standalone licensed category in the 2025 Regulations

two parties without a central exchange or broker. While OTC trading existed under the 2002 Regulations, it was confined to the fixed income market operated by or at Nairobi Securities Exchange (NSE) and accessible only to authorised securities dealers. The 2025 Regulations now establish OTC platforms as a standalone licensed category, broadly defined as trading systems enabling direct trading of commodities, currencies, listed and unlisted securities, and other instruments between two parties without a central exchange or broker.



The 2025 Regulations restructure the fee regime, introducing differentiated application fees by licensee category and a shift from flat annual fees to activity-based fees for certain categories



- e) **Trustees** – This is also now a standalone licensed category, with specific eligibility requirements including minimum paid-up capital of KES 20 million and a minimum liquid capital of KES 5 million or 8% of liabilities, whichever is higher.

Notably, the category of authorised securities dealers (which was restricted to dealing in fixed income securities under the 2002 Regulations) has been phased out under the 2025 Regulations.

Entities operating OTC platforms, digital intermediary platforms, custodial or trustee services without a standalone CMA license, as well as former authorised securities dealers, should determine the applicable license category and apply within the 12 month transitional period to avoid operating unlawfully

## 2. Revised fees license

The 2025 Regulations restructure the fee regime, introducing differentiated application fees by licensee category and a shift from flat annual fees to activity-based fees for certain categories, most notably fund managers, whose annual regulatory fee is now tied to assets under management.

Additionally, under the 2002 Regulations, a flat application fee of KES 2,500 applied across all license categories, and fees were structured as combined license and renewal fees without separate application fees. The 2025 framework introduces a tiered application fee structure and, for fund managers, replaces the flat annual fee with a variable assets under management-based model that scales with the size of the portfolio under management.

The table below sets out the full fee schedule under the Sixth Schedule of the 2025 Regulations:

Category	Application Fee (KES)	Licensing Fee (KES)	Annual Regulatory Fee (KES)
Securities Exchange	100,000	200,000	1% of gross earnings (excluding transaction fees)
Central Depository	100,000	200,000	200,000
Over-the-Counter Platform	10,000	100,000	100,000
Investment Bank	20,000	250,000	250,000
Broker-Dealer	10,000	200,000	200,000
Stockbroker	10,000	100,000	100,000
Dealer	10,000	100,000	100,000
Fund Manager	10,000	100,000 (or 50,000 if licensed under the Retirement Benefits Act)	0.05% of AUM for CIS (min KES 100,000, max KES 15,000,000); 0.01% of AUM for non-CIS excluding pension funds (max KES 15,000,000)
Investment Adviser	10,000	100,000	100,000
Custodian	10,000	100,000	100,000
Trustee	10,000	100,000	100,000
Intermediary Service Platform Provider	10,000	50,000	50,000

The revised fee structure means licensees, particularly fund managers with larger portfolios, should assess the cost impact of the new AUM-based regulatory fee against the former flat-fee model, as the change may result in materially higher annual compliance costs, up to the KES 15 million cap.



### 3. Revised capital and financial requirements

The 2025 Regulations introduce modifications to capital adequacy standards. While shareholders' funds and liquid capital thresholds for stockbrokers remain unchanged, the liquid capital requirement for dealers has been reduced. Conversely, investment banks now face a lowered paid-up share capital requirement but an elevated liquid capital obligation, reflecting a regulatory emphasis on liquidity and financial resilience.

For fund managers, the 2025 Regulations impose a significantly higher capital burden, with shareholders' funds requirements doubled relative to the 2002 regime.

Importantly, the updated framework establishes capital requirements for several license categories that previously did not have such provisions, including broker-dealers, trustees, and non-bank custodians. Additionally, securities exchanges are, for the first time, subject to explicit minimum paid-up capital requirements, enhancing prudential oversight across the market infrastructure spectrum.

The table below compares the key financial requirements:

Category	2002 Regulations	2025 Regulations	Change
<b>Stockbrokers</b> - Minimum Shareholders' Funds	KES 50 million	KES 50 million	No change
<b>Stockbrokers</b> - Minimum Liquid Capital	KES 30 million or 8% of total liabilities	KES 30 million or 8% of total liabilities	No change
<b>Dealers</b> - Minimum Shareholders' Funds	KES 20 million	KES 20 million	No change
<b>Dealers</b> - Minimum Liquid Capital	KES 30 million or 8% of total liabilities	KES 10 million or 8% of total liabilities	Decreased
<b>Investment Banks</b> - Minimum Paid-up Share Capital	KES 250 million	KES 150 million	Decreased
<b>Investment Banks</b> - Minimum Liquid Capital	KES 30 million or 8% of total liabilities	KES 50 million or 8% of total liabilities	Increased
<b>Fund Managers</b> - Minimum Shareholders' Funds	KES 10 million	KES 20 million	Increased
<b>Fund Managers</b> - Minimum Liquid Capital	KES 5 million or 8% of total liabilities	Not expressly stated	—

Existing licensees, particularly fund managers and investment banks, should assess whether their current capital positions meet the revised thresholds, as they have only 12 months from commencement to address any shortfalls and avoid non-compliance under the new framework.

**Securities exchanges are, for the first time, subject to explicit minimum paid-up capital requirements, enhancing prudential oversight across the market infrastructure spectrum**

The Monetary Authority of Singapore regulates automated advisory platforms (commonly referred to as robo-advisers) under its financial services regime

The 2025 Regulations expand the definition of investment adviser to include digital platforms providing automated, algorithm-driven advisory services with minimal human supervision

#### 4. Regulation of Digital and Technology-Driven Platforms

The 2025 Regulations introduce a comprehensive regulatory framework for technology-driven market participants, a category that was not covered under the 2002 Regulations. These include:

- a) **Algorithm-Driven Investment Advice:** The 2025 Regulations expand the definition of investment adviser to include digital platforms providing automated, algorithm-driven advisory services with minimal human supervision. Such platforms should maintain principal bank accounts in Kenya, adequate and secure systems, documented processes and methodologies, risk management frameworks, client onboarding procedures, and data protection policies ensuring seven-year record retention. This mirrors international standards, particularly Singapore's approach. The Monetary Authority of Singapore (MAS) regulates automated advisory platforms (commonly referred to as robo-advisers) under its financial services regime and, through its 2017 Guidelines on Provision of Digital Advisory Services (FAA-G19), requires strong cybersecurity controls, documented portfolio construction methodologies, human oversight, comprehensive onboarding, and business continuity arrangements. Like

MAS, Kenya takes a technology neutral stance by regulating the conduct and governance of digital advisers rather than the underlying AI tools

- b) **Intermediary Service Platforms:** These digital applications facilitate aggregation, marketing, and distribution of capital markets products. Providers must enter into written agreements with licensed market intermediaries specifying roles, liabilities, dispute resolution, and investor protection mechanisms. A provider may cease operations upon three months' notice to its licensed partner.
- c) **OTC Platforms:** These digital trading systems require applicants to provide detailed information on trading platforms, codes of conduct, and trading rules covering membership, instruments, trading procedures, and clearing and settlement mechanisms.

Taken together, the above provisions introduce prescriptive obligations for digital and technology driven platforms, requiring fintech enabled market participants to review their operating models, governance structures, and outsourcing arrangements to ensure that their systems, documentation, and contractual frameworks align with the CMA's expanded conduct, risk management, and investor protection expectations under the 2025 Regulations.

**All market intermediaries must now submit monthly risk-based capital adequacy reports within fifteen days of each month-end**

## 5. Licensing reforms

The 2025 Regulations introduce significant procedural changes to the licensing framework. Under the 2002 Regulations, there was no staged approval mechanism. Applicants had to meet all requirements before a license could be issued.

The 2025 Regulations now introduce a formal approval in principle stage under regulation 49 which enables applicants to begin setting up operations and recruit staff while finalising the remaining licensing conditions, though they may not commence business until the license is formally issued. This approval lapses after six months if the requirements are not met.

Another change is the elimination of the annual license renewal cycle. Under the 2002 Regulations, licensees were required to submit renewal applications by 30th November each year, accompanied by prescribed fees and updated accounts.

Under the 2025 Regulations, once a license has been granted, it remains valid indefinitely unless its suspended or revoked by the CMA, with licensees instead required to pay an annual regulatory fee. The 2025 Regulations also permit a single entity to hold multiple license categories simultaneously and clarify that all license fees are non-refundable, even where a license is subsequently revoked, surrendered, or terminated.

These procedural reforms, particularly the approval-in-principle mechanism and the shift to indefinite licensing, should reduce the administrative burden and lower barriers to market entry, though market participants should note that

the non-refundable nature of fees and the CMA's expanded powers of suspension and revocation place a greater premium on maintaining ongoing compliance as the primary safeguard for retaining licensure.

## 6. Enhanced reporting obligations

Under the 2002 Regulations, stockbrokers and dealers were required to submit quarterly reports as standard, with monthly reports only made available on request by the Authority.

The 2025 Regulations raise the bar significantly — all market intermediaries must now submit monthly risk-based capital adequacy reports within fifteen days of each month-end as a mandatory baseline, not merely on request.

This uniform monthly reporting standard now extends to newly licensed categories including broker-dealers, custodians, and trustees, while intermediary service platform providers must file quarterly reports.

In light of these changes, businesses are encouraged to review their reporting systems early and ensure their compliance teams are equipped to meet the new monthly deadlines. Failure to submit on time will no longer be an internal matter but a regulatory breach

## 7. Security exchange governance

Both regulations prescribe governance standards for securities exchanges, but the 2025 Regulations adjust key tenure limits. The CEO's maximum term moves from four years renewable once to five years renewable once, and the chairperson's tenure increases from two consecutive years to

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three years renewable once. The CEO experience requirement is also narrowed, from broad senior management experience in law, finance, economics, banking, or insurance, to specifically requiring expertise in capital markets.

The revised governance thresholds mean securities exchanges should review board succession planning and executive recruitment strategies to ensure leadership tenure and expertise align with the CMA's sharpened focus on capital markets specific competence and longer continuity at senior levels.

### Key considerations for affected parties

- a) **Capital adequacy:** Existing licensees, particularly investment banks and fund managers, should assess whether their current capital positions meet the revised thresholds, as some have increased while others have decreased.
- b) **Digital platform operators:** Fintech companies offering automated advisory services, intermediary platforms, or OTC trading must apply for licensing within the 12-month transitional window and should begin preparing data protection policies, risk management frameworks, and business continuity plans now. For example, a digital OTC trading platform that allows users to buy and sell securities online would also need to obtain the appropriate license within this period and prepare key compliance materials such as system security protocols, transaction monitoring procedures, and a business continuity plan to demonstrate alignment with the 2025 Regulations.
- c) **Compliance timelines:** The transitional period expires on 11 December 2026. All existing licensees should conduct a gap analysis against the new requirements and develop a clear compliance roadmap.
- d) **Reporting upgrades:** The shift to mandatory monthly risk-based capital adequacy reporting will require most licensees to upgrade their financial reporting systems and internal controls.
- e) **Fee impact:** Fund managers should model the impact of the new AUM-based annual regulatory fee on their cost base, particularly those managing large portfolios, where fees are now capped at KESKES 15 million.
- f) **Governance:** Securities exchanges must review board composition, CEO tenure, and governance structures to align with the updated requirements.
- g) **Multiple licenses:** The express ability to hold more than one license creates new strategic opportunities for intermediaries looking to diversify their service offerings.
- h) **Business plans:** All licensees must now submit updated business plans whenever changes in their business or operating environment have a material impact on operations.



## Contact us

### **Titus Mukora**

Partner,  
Legal Business Solutions  
+254 20 285 5000  
titus.mukora@pwc.com

### **Caroline Wanja**

Associate Director,  
Legal Business Solutions  
+254 20 285 5000  
caroline.wanja@pwc.com

### **Ronnie Sigei**

Senior Associate,  
Legal Business Solutions  
+254 20 285 5000  
ronnie.sigei@pwc.com

### **Jackline Mongare**

Associate,  
Legal Business Solutions  
+254 20 285 5000  
jackline.mongare@pwc.com

[www.pwc.com/ke](http://www.pwc.com/ke)

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