Banking, Finance & Projects

ALERT | 20 February 2025

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Protecting Kenyans from crypto scams: How the VASP Bill, 2025 aims to stop pump-and-dump schemes

The rise of cryptocurrencies in Kenya has been nothing short of remarkable, with many viewing digital assets as a fast track to financial success. Kenya now stands among the leading nations in Africa for cryptocurrency adoption, and thousands of people are investing in these new financial instruments.

However, with this rapid growth comes significant risk. An increasing number of investors have fallen victim to pump-and-dump schemes, where fraudsters manipulate market prices to profit at the expense of unsuspecting buyers. In response, the Kenyan Government is taking decisive steps by introducing the Virtual Assets Service Providers Bill, 2025 (VASP Bill), which aims to safeguard investors and restore trust in the crypto market.

What are pump-and-dump schemes?

A pump-and-dump scheme is a form of securities fraud in which perpetrators artificially inflate the price of a stock or, in the case of cryptocurrency, a digital token. Fraudsters employ false, misleading or exaggerated statements to create an appearance of high demand and value. They then sell off their holdings once the price has been pumped up, triggering a sharp decline in value when the market corrects itself. This leaves many investors with significant losses as the token's price collapses. While these schemes were once primarily associated with low-priced stocks, the decentralized and largely unregulated nature of the cryptocurrency market has made it an attractive playground for such fraudulent activities.

An example of a notorious global pump-and-dump scheme involved the Save the Kids token. Marketed as a charity token, the scammers behind it claimed that a portion of every transaction fee would go to a charity for children. The token gained traction thanks to endorsements from well-known influencers. Initially, the token featured an anti-whaling mechanism designed to limit large investors – dubbed "*whales*" – from trading more than 20% of their holdings within a day. However, after an update to the code, these restrictions were lifted, allowing significant holders to sell off their tokens without limitation. When these top holders dumped their tokens, the value of Save the Kids crashed dramatically, leaving many investors with worthless tokens.

Although this not a Kenyan example, it illustrates a method that could soon be replicated in Kenya given the increasing interest in cryptocurrency.

Regulatory measures

The VASP Bill is designed to counter such fraudulent schemes by introducing strict regulatory measures. Under the bill, only licensed companies will be allowed to offer crypto services in Kenya, effectively barring individuals from launching initial coin offerings (ICOs) on their own. This requirement for corporate registration, along with mandated disclosure of company ownership under the Companies (Beneficial Ownership Information) Regulations, 2020, will make it easier to trace and hold those responsible for market manipulation accountable.

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In addition, the VASP Bill imposes rigorous licensing requirements on crypto service providers. They must obtain licenses from the Capital Markets Authority, the Central Bank of Kenya or another designated body. Operating without a license can lead to severe penalties, including fines as high as KES 20 million for companies and KES 10 million or up to 10 years in prison for individuals. Authorities will also have the power to revoke or suspend licenses if companies are caught engaging in fraudulent practices, such as pump-and-dump schemes.

The regulatory framework extends to oversight of ICOs as well. Companies are now required to seek approval before launching an ICO and must provide comprehensive details about the project, including the identities of its creators. If the information provided is misleading or inconsistent with the approved details, the ICO can be denied or penalised. Severe consequences await any party that attempts to deceive investors, with penalties that can reach KES 30 million or a prison term of up to 10 years. The bill mandates integrity in all operations related to virtual assets and requires companies to report any legal issues associated with their offerings.

Limitations

Despite these robust measures, the VASP Bill has its limitations. It currently applies only to ICOs conducted within or from Kenya, meaning that fraudsters operating from abroad could still potentially target Kenyan investors. Moreover, the VASP Bill does not provide incentives or protections for whistle-blowers, which might hinder the early detection and reporting of suspicious activities. In addition, the VASP Bill does not set out any requirements regarding the contents of a digital asset white paper or other disclosures that must accompany an ICO. It is likely that these details will be prescribed in future regulations.

Conclusion

Ultimately, the VASP Bill, represents a significant step toward enhancing the security and integrity of Kenya's crypto market. With the increasing uptake of digital assets in Kenya, it is crucial to have strong safeguards in place to ensure that the lessons learned from international pump-and-dump schemes are not repeated locally. By regulating who can launch ICOs and enforcing greater transparency and accountability, the bill seeks to mitigate the risks posed by pump-and-dump schemes – a tactic historically common in unregulated markets.

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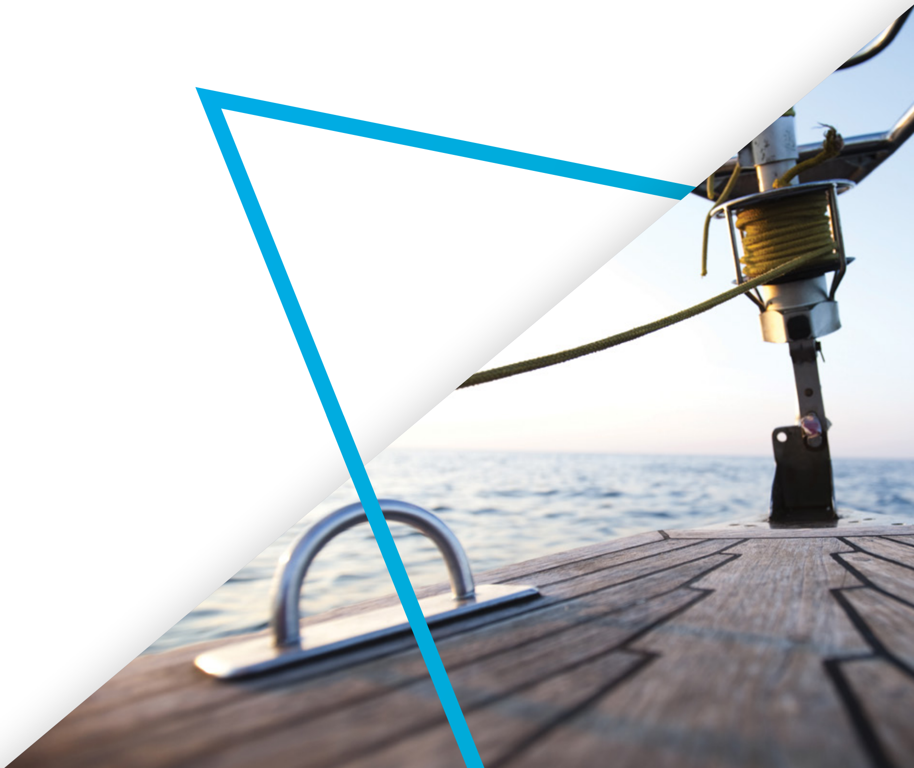

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