



## **CIRCULAR NO: 03 of 2025**

(Issued under Section 12B (2)(g) of the Capital Markets Act)

**December 31, 2025**

**To: All Capital Market Intermediaries**

**RE: CIRCULAR ON CUSTOMER DUE DILIGENCE (CDD) & ENHANCED DUE DILIGENCE (EDD)**

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### **1. Purpose of the Circular**

This circular provides practical guidance to market intermediaries on the implementation of Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) measures. It is intended to assist with day-to-day application and incorporates examples of international best practices as recommended by the Financial Action Task Force (FATF).

#### **1.1 Scope and Limitation**

The circular does not address every possible scenario. Market intermediaries are required to develop Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Counter-Proliferation Financing (CPF) policies, procedures, systems, and controls that are commensurate with the nature, scale, and complexity of their operations.

#### **1.2 Legal Disclaimer**

This circular does not constitute legal advice and does not replace the Proceeds of Crime and Money Laundering Act (POCAMLA) or its subsidiary regulations. It should be read together with the applicable legislation. Market intermediaries remain fully responsible for compliance with all relevant laws.

#### **1.3 Legal Authority**

This circular is issued pursuant to Section 12B(2)(g) of the Capital Markets Act and shall be enforced in accordance with Section 12B(2)(f) of the Act.

### **2. Customer Due Diligence (CDD)**

#### **2.1 Objective**

To mitigate money laundering (ML) and terrorism financing (TF) risks, market intermediaries must know their customers, understand the nature of their business, and verify the source of funds. CDD involves identifying customers, understanding their business activities, and confirming the origin of funds.

## **2.2 Circumstances Requiring CDD**

CDD measures must be applied when:

- a. Establishing a business relationship;
- b. Conducting occasional transactions above USD/EUR 15,000, including situations where the transaction is carried out in a single operation/ in several operations that appear to be linked;
- c. Executing wire transfers as per FATF Recommendation 16;
- d. There is suspicion of ML/TF; or
- e. Previously obtained customer identification data is inadequate or doubtful.

## **2.3 CDD Measures**

- i. Identify and verify customer identity using reliable, independent sources.
- ii. Verify the authority and identity of any person acting on behalf of the customer.
- iii. Identify and verify beneficial owners.
- iv. Understand and document the purpose and intended nature of the business relationship.
- v. Conduct ongoing monitoring to ensure transactions align with the customer's profile and keep records updated.

## **2.4 Special Requirements**

*For legal persons and arrangements:* verify ownership structure, senior management, and beneficial owners.

## **2.5 Regulatory Basis**

CDD measures, including identification and verification of customers, beneficial owners, source of funds, understanding business relationships and information to be obtained, are outlined in **Regulation 14 to 19** of the Proceeds of Crime and Anti-Money Laundering Regulations, 2023.

## **2.6 Ongoing Due Diligence**

Market intermediaries must ensure that documents and information collected during CDD remain current and relevant, with periodic reviews, particularly for high-risk customers.

## **2.7 Suspicious Transactions**

Where suspicion of ML or TF arises, intermediaries shall:

- i. Identify and verify the customer and beneficial owner, regardless of exemptions or thresholds; and
- ii. Submit a Suspicious Transaction Report (STR) to the Financial Reporting Centre (FRC).

## **2.8 Prohibition on Tipping Off**

Market intermediaries, their directors, officers, and employees shall not disclose the fact that an STR or related information has been reported to the FRC, as this may compromise investigations.

### 3. Risk-Based Approach

#### 3.1 Regulatory Basis

All market intermediaries shall implement a risk assessment in accordance with **FATF Recommendation 1** and **Regulation 7** of the Proceeds of Crime and Anti-Money Laundering Regulations, 2023.

#### 3.2 Mandatory Risk Assessment

- a. A comprehensive risk assessment shall be conducted prior to establishing any business relationship or executing transactions.
- b. The assessment must consider customer profile, geographic exposure, product/service characteristics, and delivery channels.

#### 3.3 Application of Due Diligence Measures

Based on the risk assessment outcome, intermediaries shall apply:

- a) *Enhanced Due Diligence (EDD)*: Required for customers, jurisdictions, products, or services classified as high-risk for money laundering (ML) or terrorism financing (TF).
- b) *Simplified Due Diligence (SDD)*: Permitted only where a demonstrably low-risk profile is established. Prohibited in any circumstance where ML/TF suspicion exists.

#### 3.4 Documentation and Record-Keeping

- a) All risk assessments and corresponding due diligence decisions shall be documented and retained for a minimum period of seven years.
- b) Records must be readily available for regulatory review and audit.

#### 3.5 Ongoing Review

- a) Risk assessments shall be periodically reviewed and updated to reflect changes in customer behaviour, regulatory requirements, or emerging threats.
- b) Where risk levels increase, intermediaries must immediately upgrade due diligence measures to EDD.

### 4. Simplified Due Diligence (SDD)

#### 4.1 Application

SDD may be applied only where a customer is assessed as low risk. It is **not permitted** where there is suspicion of ML/TF or PF. If a customer's risk profile changes significantly, market intermediaries must upgrade CDD measures.

#### 4.2 SDD Measures include

- i. Verifying identity after establishing the relationship;
- ii. Reducing frequency of identification updates;
- iii. Lowering the intensity of ongoing monitoring based on reasonable thresholds;
- iv. Inferring the purpose and nature of the relationship from transaction patterns rather than collecting detailed information.

#### 4.3 Regulatory Basis

Simplified due diligence measures are outlined in **Regulation 21** of the Proceeds of Crime and Anti-Money Laundering Regulations, 2023.

## 5. Enhanced Due Diligence (EDD)

### 5.1 Application

EDD shall be applied where ML or TF risks are **higher**. Risk assessment shall consider customer type, geography, products, services, transactions, and delivery channels.

### 5.2 Higher-Risk Indicators

- i. **Customer Risk Factors:**
  - a. Unusual business circumstances (e.g., significant unexplained geographic distance between the market intermediaries and the customer);
  - b. Non-resident customers;
  - c. Asset-holding legal entities;
  - d. Companies with nominee shareholders;
  - e. Cash-intensive businesses;
  - f. Complex ownership structures;
  - g. Politically Exposed Persons (PEPs).
- ii. **Country/Geographic Risk Factors:**
  - a. Jurisdictions lacking adequate AML/CFT/CPF regimes;
  - b. Countries under sanctions or embargoes;
  - c. Regions with high corruption or criminal activity;
  - d. Areas linked to terrorist financing or hosting terrorist groups.
- iii. **Product/Service/Transaction Risk Factors:**
  - a. Non-face-to-face relationships or transactions;
  - b. Payments from unknown or unrelated third parties.

### 5.3 Regulatory Basis for EDD

EDD measures for high-risk customers are outlined in **Regulation 20** of the Proceeds of Crime and Anti-Money Laundering Regulations, 2023.

### 5.4 Failure to Complete CDD/EDD

If CDD cannot be completed:

- i. Do not open accounts, commence business, or process transactions.
- ii. File a Suspicious Transaction Report (STR) with the Financial Reporting Centre (FRC).

## 6. Additional Reference Information:

To ensure full compliance with the Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Counter-Proliferation Financing (CPF) regulatory framework, market intermediaries are strongly encouraged to consult the following official resources:

- i. **Financial Reporting Centre (FRC):** Provides the most current Kenyan legislation, regulations, and guidance relevant to AML/CFT/CPF compliance.

- ii. **Financial Action Task Force (FATF):** Offers the FATF Forty Recommendations, implementation guidance, and internationally recognized best practices for combating money laundering, terrorist financing, and proliferation financing.
- iii. **Capital Markets Authority (CMA):** Provides guidelines and circulars issued by the CMA on AML/CFT/CPF obligations applicable to capital market intermediaries.

*These resources should be reviewed regularly to remain informed of updates and emerging global standards.*

## **7. Enforcement and Effective Date**

This circular is enforceable under Section 12B (2)(f) of the Capital Markets Act. Failure to adhere to this circular will result in regulatory intervention and enforcement action. All market intermediaries' staff must ensure strict compliance and report any suspicious activity promptly. This circular takes effect immediately.

### **Contact Information**

For clarifications, contact:

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