



**TARGETED FINANCIAL SANCTIONS GUIDELINES**

**FOR**

**SUPERVISED FINANCIAL INSTITUTIONS (SFIs)**

**DECEMBER 2022**

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## **Glossary of acronyms**

AML	Anti-Money Laundering
AMLA	Anti-Money Laundering Act
AMLR	Anti-Money Laundering Regulations
ATA	Anti-Terrorism Act
ATR	Anti-Terrorism Regulations
CFT	Combatting the Financing of Terrorism
CPF	Counter-Proliferation Financing
DPRK	Democratic People's Republic of Korea
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIA	Financial Intelligence Authority
TF	Terrorism Financing
TFS	Targeted Financial Sanctions
UN	United Nations
UNSC	United Nations Security Council
UNSCR	United Nations Security Council Resolutions
WMD	Weapons of Mass Destruction

## **1. Introduction**

- 1.1 Uganda as a country is committed to protecting its financial services sector from abuse by illicit actors engaging in Proliferation Financing (PF) and Terrorism Financing (TF).
- 1.2 All natural and legal persons in Uganda should exercise caution and vigilance to ensure that they do not in any way support individuals or organizations sanctioned by the United Nations Security Council (UNSC) Resolutions for proliferation-related matters including:
  - (i) UNSCR 1718 (2006) related to the Democratic People’s Republic of Korea (DPRK).
  - (ii) UNSCR 2231(2015) related to the Islamic Republic of Iran, and their successor resolutions; and
  - (iii) UNSCR 1267 (1989) and 1373 (2001) related to terrorism financing and also pertaining to sanctions related to restrictions on providing assets to designated persons or entities and dealing with assets of designated persons or entities.
- 1.3 The reporting entities are required to effectively tackle TF/PF through identification and reporting suspicions of TF/PF activity, executing asset freezes where warranted, providing relevant information to the FIA, without delay, and ensuring adequate resourcing of internal systems and processes needed to complete their tasks in accordance with the existing legal framework on TF and PF.
- 1.4 The existing legal framework in Uganda on TF and PF consists of the (ATA) (2002) which was amended in 2015, 2017 and 2022 to address identified gaps, the most recent amendment having been made to provide for the inclusion of the offence of proliferation financing and for related matters and accompanying sanctions regime. Furthermore, the ATA 2002 is operationalized by the ATR (2016) which were amended in 2022.

- 1.5 The roles of the Minister of Internal Affairs, Minister of Foreign Affairs, the FIA and the respective supervisory authorities are stipulated under Section 10 of the ATA (2002), Sections 3, 9 and 10 of the ATR (2016), Sections 12 and 13 of the ATR (2016) as well as Regulation 53 (1) of the Anti- Money Laundering Regulations (AMLR), 2015, respectively.
- 1.6 The reporting entities therefore are expected to put in place adequate systems to enable them to comply with the above legislations whereas the respective supervisory authorities of each of the reporting entities are required to supervise and ensure that the legislations are being adhered to.

## **2. Rationale**

- 2.1 The FATF under Recommendations 6 and 7 requires all countries to implement targeted financial sanctions related to terrorism and proliferation financing, respectively.
- 2.2 The UNSC has imposed sanctions to prevent and counter terrorism and the proliferation of WMD, and their financing. This includes targeted financial sanctions against specific persons and entities that have been identified as being connected to the proliferation of WMD. All United Nations member states are required to implement these measures.
- 2.3 Accordingly, the Ugandan legislations have incorporated the above recommendations under Regulations 12 to 19 of the ATR (2016). Specifically, reporting entities under Regulation 12, sub-regulations (6) to (10) have a duty to freeze without delay or seize funds or property and stop all transactions relating to those funds or property upon receipt of notification from the FIA and thereafter inform the FIA of the full particulars of the funds or property which have been frozen or seized and any other information that is relevant to or would facilitate compliance with the Regulations, including all transactions or attempted transactions relating to the funds or property.

2.4 The reporting entities are required to implement a range of preventive measures as described under the interpretive notes to FATF Recommendations 6 and 7 to comply with reporting requirements. The aim is to prevent the abuse of the reporting entities for the funding of terrorism and facilitate the freezing of funds and other assets, as well as generate financial intelligence for use in investigations.

### **3. Institutional framework**

3.1 The Ministry of Internal Affairs is the focal point for UN sanctions related matters, including coordinating and promoting effective implementation of the obligations under the UNSC resolutions in Uganda.

3.2 The FIA has, under Section 12 (5) of the ATR, 2016, the responsibility to without delay give notice to all reporting entities to facilitate the timely freezing or seizing of the funds or property of the suspected terrorist or terrorist organisation. This includes new designations, changes to existing designations, and removed designations.

3.3 Section 21A (1) of the AMLA 2017 (as amended), assigns supervisory authorities powers to enforce compliance of accountable persons with the provisions of the Act. Furthermore, Regulation 53 (1) of the AMLR, 2015, requires supervisory authorities to supervise and enforce compliance by accountable persons over whom they exercise supervisory control or oversight with the requirements imposed under the AMLA and AMLR.

3.4 The FIA may develop additional guidelines relevant to the reporting entities. It is important that reporting entities consult both the guidelines issued by the FIA, as well as any guidance issued by their respective supervisory authorities.

#### **4. Scope of Guidelines**

- 4.1 In accordance with Section 6 (27) of the AMLA (As Amended), 2017, these guidelines have been issued to assist reporting entities with the implementation of the preventive measures, in particular the role played by reporting entities as prescribed under the Anti-Terrorism Regulations, 2016.
- 4.2 These guidelines are provided for general guidance only and do not in any way whatsoever constitute legal advice or intend to replace the Act and Regulations. They should be read in conjunction with other relevant national legislations as (indicated in the introduction), international standards, and guidelines issued by Financial Intelligence Authority or any other relevant authority.

#### **5. Terrorism Financing**

**5.1 What is Terrorism?** The ATA 2022 (as amended) defines terrorism as an act carried out with the purpose of influencing the Government or intimidating the public or a section of the public and for a political, religious, social or economic aim, indiscriminately without due regard to the safety of others or property including:

- a) Intentional and unlawful manufacture, delivery, placement, discharge or detonation of an explosive or other lethal device, whether attempted or actual, in, into or against a place of public use, a State or Government facility, a public transportation system or an infrastructure facility, with the intent to cause death or serious bodily injury, or extensive destruction likely to or actually resulting in major economic loss.
- b) Direct involvement or complicity in the murder, kidnapping, maiming or attack, whether actual, attempted or threatened, on a person or groups of persons, in public or private institutions.

- c) Direct involvement or complicity in the murder, kidnapping, abducting, maiming or attack, whether actual, attempted or threatened on the person, official premises, private accommodation, or means of transport or diplomatic agents or other internationally protected persons.
- d) Intentional and unlawful provision or collection of funds, whether attempted or actual, with the intention or knowledge that any part of the funds may be used to carry out any of the terrorist activities as provided for under the Act.
- e) Direct involvement or complicity in the seizure or detention of, and threat to kill, injure or continue to detain a hostage, whether actual or attempted in order to compel a State, an international inter-governmental organization, a person or group of persons, to do or abstain from doing any act as an explicit or implicit condition for the release of the hostage.
- f) Unlawful seizure of an aircraft or public transport or the hijacking of passengers or group of persons for ransom.
- g) Serious interference with or disruption of an electronic system. Such electronic systems may include but not limited to; security surveillance and payments systems.
- h) Unlawful importation, sale, making, manufacture or distribution of any firearms, explosive, ammunition, or bomb.
- i) Intentional development or production or use of, or complicity in the development or production or use of a biological weapon.
- j) Unlawful possession of explosives, ammunition, bomb, or any materials for making of any of the foregoing.

**5.2 What is Terrorism Financing?:** FATF defines Terrorism financing as the financing of terrorist acts, and of terrorists and terrorist organizations. The ATA 2022 (as amended) describes acts that contribute to terrorism financing as such whereby a person; willingly collects or provides funds, directly or indirectly, by any means, with the intention that such funds will be, or in the knowledge that such funds are to be used, in full or in part, by a person or terrorist organisation, to carry out a terrorist act.

## **6. Proliferation Financing**

6.1 Proliferation refers to the development and use of nuclear, chemical, or biological weapons and their delivery systems – also referred to as Weapons of Mass Destruction (WMD) – by state or non-state actors in violation of international agreements and export control regimes.

6.2 State and non-state actors may access and use the formal financial system, as well as informal methods of value transfer, to raise funds, conduct payments to procure materials and goods needed for proliferation, and engage in other illicit financial activities connected to proliferation efforts. Proliferation financing therefore facilitates the movement and development of proliferation-sensitive goods and WMD programmes and can therefore contribute to global instability and may ultimately result in loss of life.

6.3 Proliferation Financing activities are further defined under Section 9B (2) of the ATA, 2022 (as amended), as a person or organization that:

- (i) Makes available an asset;
- (ii) Provides a financial service; or
- (iii) Conducts a financial transaction.

And the person knows that, or is reckless as to whether, the asset, financial service or financial transaction is intended, in whole or in part to facilitate any

of the activities specified in the ATA, 2022 (as amended) regardless of whether the specified activity occurs or is attempted.

6.4 The activities referred to in the ATA 2022 (as amended) include:

- a) The manufacture, production, possession, acquisition, stockpiling, storage, development, transportation, sale, supply, transfer, export, transshipment, or use of:
  - (i) Nuclear weapons.
  - (ii) Chemical weapons.
  - (iii) Biological weapons.
- b) Materials related to nuclear weapons or radiological weapons that are prescribed by regulations or restricted or prohibited under any enactment relating to export or import controlled measures; and
- c) The provision of technical training, advice, service, brokering, assistance related to the activities mentioned in clause (b) above.
- d) It may therefore be useful to think of proliferation financing as three categories of activities that should be considered as part of counter-proliferation financing (CPF) efforts.
- e) Proliferators and terrorists who have been designated or designated by the UNSC use complex networks of front companies and diversion techniques borrowed from the world of money laundering to access the global financial system and circumvent increasingly stringent counter terrorist financing (TF) and proliferation financing (PF) sanctions measures. However, whereas money laundering is a circular process deployed by criminals to conceal the illicit origin of the proceeds of crime, sanctions are about the individuals to whom funds are made

available (designated persons and entities) or the purposes for which they are being used (proliferation).

- f) It is therefore important that TF/PF is considered as distinct from other types of financial crime and other types of sanctions compliance.
- g) While tools used to combat AML/CFT and screening tools for sanctions will be very important for detecting TF/PF, this may ignore typologies and trends that are unique to proliferation financing.

## **7. Scope of Targeted Financial Sanctions**

7.1 In response to identified terrorism and WMD proliferation threats, the UNSC currently imposes TFS related to terrorism and proliferation under the following sanctions regimes as well as any new sanctions as maybe declared in future:

- a) Islamic Republic of Iran – UNSC Resolution 2231 (2015) replaced all previous UNSC Resolutions related to Iran and WMD proliferation, and imposes assets freeze measures against certain individuals and entities. The assets freeze measures will apply until October 2023 or earlier as provided in the UNSCR. The 2231 List contains the names of the persons and entities designated under UNSC Resolution 2231.
- b) Democratic People’s Republic of Korea (DPRK) – UNSC Resolution 1718 (2006) and all successor resolutions related to the DPRK. The 1718 List contains the names of the persons and entities currently designated related to DPRK.
- c) The UNSC Resolution 1267 (1999) targets specific individuals including designations relating to the Al-Qaida and the Taliban as well as related threats to Afghanistan.
- d) The UNSC Resolution 1373 (2001), requires designations to be made, at the national or supranational level, by a country or countries acting on

their own motion, or at the request of another country, if the country receiving the request is satisfied, according to applicable legal principles, that a requested designation is supported by reasonable grounds, or a reasonable basis, to suspect or believe that the proposed designee meets the criteria for designation in resolution 1373.

- e) In addition, UNSC Resolution 2270 on DPRK also requires the freezing of any funds, other financial assets and economic resource that are owned or controlled, directly or indirectly, by:
  - (i) entities of the Government of the DPRK or the Worker's Party of Korea, or - by persons or entities acting on their behalf or at their direction, or
  - (ii) entities owned or controlled by them, that a State determines are associated with the DPRK's nuclear or ballistic missile programs or other activities prohibited by relevant UNSC resolutions.
- f) Reporting entities should also be aware of the definition of 'funds' as it may determine, and potentially expand, the scope of TFS implementation beyond just financial transactions and funds.
- g) Under Section 2 of the ATA 2015 (as amended), 'funds' may include assets of every kind, tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in such assets, including but not limited to, bank credits, travelers' cheques, bank cheques, money orders, shares, securities, bonds, drafts and letters of credit.
- h) UNSC Resolution 2270 establishes that, specifically for the DPRK, the definition of 'economic resources' includes vessels. The UN 1718 Sanctions Committee maintains separate lists of designated vessels which are similarly subject to asset freezing actions which can be accessed at the following link;

<https://www.un.org/securitycouncil/sanctions/1718/materials/list-of-designated-vessels>

- i) Despite the expanded scope of which persons and entities, and what funds and assets, are covered by TFS implementation, there are also important exceptions to TFS which should be consulted. This includes the ability for a designated party to access assets under limited circumstances, including the provision of basic living expenses, or extraordinary expenses if approved by UNSC committees. For UNSC Resolution 2231 on Iran, certain payments due under contracts entered prior to a party being designated can also be approved.
- j) Criteria 6.5(a) and 7.2(a) of the FATF Methodology 2020 further reinforce the UNSCRs in relation to TFS on TF and PF. Reporting entities including all financial institutions, DNFBPs, natural and legal persons within the country are required to freeze, without delay and without prior notice, the funds or other assets of designated persons and entities.
- k) Furthermore, criteria 6.5(e) and 7.2(e) of the FATF Methodology 2020 further stipulate that financial institutions and DNFBPs be required to report to the FIA any assets frozen or actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions.
- l) In Uganda, reporting entities are specifically required under Regulation 12(8) of the ATR (2016) to without delay, after freezing or seizing any assets or property under Regulation 12(7) inform the FIA of the full particulars of the funds or property which have been frozen or seized and any other information that is relevant to or would facilitate compliance with the above-mentioned Regulations, including all transactions or attempted transactions relating to the funds or property. Reference can be made to regulation 12(9) of the ATR (2016) for details of the particulars required for reporting purposes.

## **8. Implementation by Reporting Entities**

- 8.1 As stated in regulation 12 (6) of the ATR, 2016, upon receipt of notice from the FIA, the reporting entities shall conduct an immediate check to verify whether the details of the suspected proliferator or terrorist / terrorist organization match with the particulars of any customer, and if so, to determine whether the customer holds any funds or property with it.
- 8.2 Where a customer holds any funds or property, whether wholly or jointly owned or controlled directly or indirectly by the customer, the reporting entities shall, without delay, and upon receipt of instructions from the FIA, freeze or seize such funds or property and stop all transactions related to those funds or property.
- 8.3 The reporting entities shall, without delay after freezing or seizing any funds inform the FIA of the full particulars of the funds which have been frozen or seized and any other information that is relevant to or would facilitate compliance with the ATR, 2016 including all transactions or attempted transactions relating to the funds.
- 8.4 Reporting entities are therefore expected to put in place a TFS framework including policies and procedures as well as systems to facilitate the timely detection and reporting of any funds linked to TF/PF. These procedures should:
- (i) clearly assign responsibility in the reporting entities to ensure compliance with legal and supervisory TFS requirements.
  - (ii) outline the process used to investigate potential matches, including escalation procedures for potential matches.
  - (iii) define the process used to block and reject transactions.
  - (iv) outline the process used to inform management of blocked or rejected transactions.
  - (v) address the adequacy and timeliness of filing reports to FIA.

- 8.5 Reporting entities must ensure that they put in place a mechanism to clearly communicate these policies and procedures to employees and any third parties operating on behalf of the reporting entities.
- 8.6 Reporting entities should ensure that they employ and allocate adequate resources necessary to perform effective due diligence relating to TF/PF.
- 8.7 Furthermore, reporting entities must actively train employees and third-party agents to ensure they understand sanctions compliance obligations, as well as how to recognize and address sanctions compliance.
- 8.8 Reporting entities should ensure that the internal audit function periodically reviews the TFS implementation processes and that an independent assessment is conducted regularly on the sanction screening solutions used by the reporting entities.

In addition to measures 8.4 to 8.7 above, reporting entities should adopt risk-focused due diligence measures such as and not limited to:

- (i) Assessment of TF and PF risks separately from ML risks to effectively apply the TF risk-based approach as per FATF Recommendation 1.
- (ii) Identification and verification of customers, including beneficial owners.
- (iii) Reviewing whether these customers and beneficial owners are subject to sanctions.
- (iv) Scrutinizing customers' transactions through transaction monitoring.
- (v) Reporting suspicions of TF/PF to the FIA as per the relevant Ugandan legislations.
- (vi) Keeping records that can be shared with the relevant authorities without delay.

## **9. Sanction Screening**

- 9.1 Sanctions apply to all clients and transactions, and there is no minimum financial limit or other threshold for when to conduct screening.
- 9.2 Reporting entities shall, without delay, verify whether the details of a designated party match with the particulars of any customer, and if so, to identify whether the customer owns any funds or other assets within its control environment.
- 9.3 All customers and transactions must therefore be screened against sanctions lists for potential matches. Once a positive match has been established the customer on-boarding process or transaction processing must, without delay, be halted and a report filed to the FIA.
- 9.4 The extent of, and method for, conducting screening for each relevant department or business line (e.g., RTGS transfers, Automated Clearing House (ACH) transactions, cross-border funds transfers, trade finance products, monetary instrument sales, cheque cashing, trusts, loans, deposits, and investments) may vary from one department or business line to another. SFIs shall define in their procedures how screening will be conducted for different business lines.

### ***Customer screening***

- 9.5 Reporting entities must have an automated system in place to screen customers during on-boarding and through the life cycle of the customer relationship. This also includes beneficiaries, guarantors, principals, beneficial owners, nominee shareholders, directors, signatories, and powers of attorney and any other parties linked to the account.
- 9.6 At a minimum, screening should take place when establishing a new relationship, and at regular intervals either upon a trigger event (change in directors or ownership) or when there are changes on the sanctions' list.

## ***Transaction Screening***

- 9.7 Each incoming and outgoing transaction should similarly be screened for a potential match with sanctions lists. SFIs must ensure that all transactions are always screened prior to completion (real-time screening).
- 9.8 While conducting transaction screening, reporting entities should at the minimum consider the most following screening data fields:
- (i) Parties involved (remitter, beneficiary, other financial institutions involved in the transaction, intermediaries);
  - (ii) Bank names, bank identifier codes (BIC) and other routing codes
  - (iii) Free text fields (e.g. payment reference); and
  - (iv) Address of the remitter and beneficiary
- 9.9 Attention should be given to those data fields within the transactional process where information could be modified or removed to undermine screening controls, for example evidence that information has been stripped from the transaction, or the transaction exhibits signs of sanctions evasion techniques. An overview of common sanctions evasion techniques employed by terrorists / proliferators is outlined in section 11.4 below.

## ***Sanctions Match and Resolving False Positives***

- 9.10 When the reporting entity detects a positive match, and it does maintain accounts, or otherwise holds or controls funds and other assets for the designated party (or anyone owned or controlled by the designated party, or acting on their behalf for their benefit), the reporting entity should without delay:
- (i) Not deal with those funds and other assets;
  - (ii) Not make funds and other assets available to or for the benefit of the designated party; and

(iii) Investigate further as detailed in section 9.11.

9.11 If an alert is generated with a potential match, this is not an automatic indication of a sanction's violation. It should be confirmed or discounted with additional information gained through further investigation without delay.

9.12 Determining a true match can often prove difficult due to a range of variables including language, spelling, abbreviations, and aliases. UN sanctions lists are provided with other identifying information to assist in the identification of a true match or false positive.

## **10. Reporting Obligations and procedures for Sanctions Reporting**

10.1 If a positive sanction match is identified, assessed and confirmed by the reporting entity, it must submit a report to the FIA after freezing any funds or property without delay. Regulation 12 (9) of the ATR, 2016 clearly indicates the information that should be included in the report.

10.2 There are important exceptions to TFS which should be consulted with the FIA. This includes the ability for a designated party to access assets under limited circumstances, including the provision of basic living expenses, or extraordinary expenses if approved by UNSC committees, as well as the rights of bona fide third parties. These provisions are outlined under Recommendation 6 and 7 and their accompanying interpretive notes.

10.3 Any payments relating to the purposes described in 10.2 can only be authorized upon obtaining prior written approval from the FIA in accordance with provisions stipulated under regulation 18 of the ATR.

## **11. Effective implementation of Targeted Financial Sanctions**

### ***Understanding Sanctions Evasion***

- 11.1 It is crucial that Reporting entities consider how designated parties may indirectly gain access to funds or financial services. This is because designated parties will rarely (if ever) show up in a transaction but will instead make use of complex networks of front companies and intermediaries to conceal their involvement in a financial transaction.
- 11.2 Reporting entities should familiarize themselves with common sanctions evasion techniques of terrorists / proliferators to effectively implement TFS related to terrorism / proliferation and ensure that no funds or other assets are made available to designated persons and entities, as well as anyone acting on behalf of or at the direction of designated persons and entities or owned or controlled by them.
- 11.3 Reporting entities should further take note of the risk of misuse of charities and other Non-Profit Organizations (NPOs) for TF purposes. Enhanced monitoring may be warranted for certain charities and NPOs which, by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse. It is also crucial to identify the nature of threats posed by terrorist entities to the NPOs which are at risk as well as how terrorist actors abuse those NPOs. Further reference can be made to FATF Recommendations 8 and the accompanying Interpretive Notes.
- 11.4 Reporting entities should further heed to the findings from the NPO sectoral risk assessment that Uganda conducted in 2021, by the FIA, which exposed vulnerabilities in relation to source of funds in the sector such as cash-intensive processes that may lead to commingling of funds from sources which may support terrorism, anonymity of donors as reported by some respondents (source of funds not specified/unknown and use of personal bank accounts of their directors to receive donations and transact NPO activities).

***Common sanctions evasion techniques used by terrorists / proliferators include:***

- a) The use of aliases and falsified documentation to hide involvement of designated party;
- b) Bank accounts owned by nationals not from a proliferating country, who act as financial representatives on behalf of designated parties from the proliferating country;
- c) Offshore, front and shell companies to hide beneficial ownership information, and the involvement of designated parties;
- d) Designated parties entering joint ventures with non-designated companies;
- e) Use of diplomatic staff bank accounts, on behalf of designated parties and proliferating countries;
- f) Use of virtual currencies by designated parties to circumvent the formal financial system and evade sanctions;
- g) Conduct cyber-attacks against financial institutions and crypto currency exchanges to raise funds and evade sanctions; and
- h) Designated persons obtaining citizenship in other jurisdictions.

***Situations that may indicate sanctions evasion include:***

- a) Customers linked to high-risk countries or business sectors;
- b) Customers who have unnecessarily complex or opaque beneficial ownership structures, or have frequent changes in directors, beneficial owners, or signatories (especially within short time from account opening);

- c) Customers who have previously had dealings with individuals or entities designated for terrorism / proliferation by the UNSC;
- d) Customers who have entered into joint venture or cooperation agreements with designated parties, including the sharing of address with a designated party;
- e) Customers involved in trading, brokering or intermediary services, and carrying out business inconsistent with normal business practices or with significant changes in business activities;
- f) Transactions that are unusual, lack an obvious economic or lawful purpose, are complex or large or might lend themselves to anonymity;
- g) Transactions or trade with countries known to be exploited by terrorism / proliferation financing regimes or neighboring countries to terrorism / proliferation financing regimes; and
- h) Transactions involving correspondent banks known to facilitate payments for terrorists / proliferating regimes or within high-risk jurisdictions.

## **12. Review of the Targeted Financial Sanctions Guidelines**

Reporting entities should ensure full compliance with these TFS guidelines, with immediate effect. Reporting entities are however urged to compile any challenges faced arise in the implementation of these guidelines and forward the same to the following for BOU's consideration:

***The Office of the Executive Director,  
Supervision Directorate,  
Bank of Uganda,  
3<sup>rd</sup> Floor Plot 45,  
Kampala Road, Kampala,  
Uganda***