



**Uganda**  
Securities Exchange

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**Risk assessment and profiling guidelines to brokers**

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.

**AUGUST 2025**

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## 1. Background

Effective risk assessment and profiling are essential components of a robust risk management framework. These guidelines aim to provide a standardized approach for identifying, categorizing and managing risks associated with clients or transactions. By implementing consistent risk profiling practices, brokers can enhance their ability to detect, monitor and mitigate potential risks, including financial, operational and compliance related threats such as money laundering, fraud and market abuse.

These guidelines outline key principles, risk indicators and assessment procedures to support informed decision making and ensure alignment with regulatory requirements and best practices in the financial industry.

## 2. Objectives

The objective of these risk profiling guidelines is to establish a structured approach for brokers to access and manage risks associated with clients during onboarding process and regular monitoring of client's activities. These guidelines aim to:

- a) Enable risk-based client categorization. Ensuring that clients are classified into appropriate risk categories (Low, Medium, High) based on identifiable risk factors.
- b) Support informed decision making. Providing brokers with a structured basis for determining the level of due diligence and ongoing monitoring required for each client.
- c) Enhance Regulatory Compliance. Assisting brokers in complying with applicable laws and regulations related to Anti money laundering, counter Terrorism financing and Know Your Customer requirements.
- d) Preventing Financial Crime. Detecting and deterring involvement in money laundering, terrorist financing, fraud, insider trading, or other market abuses.
- e) Safeguarding market integrity and reputation by promoting ethical standards and protecting the brokerage and wider securities market from reputational systems risks.
- f) To establish a foundation for ongoing risk-based effective monitoring of client activity.

## 3. Purpose

The purpose of these risk profiling guidelines is to provide a structured framework for brokers to identify, assess and classify clients based on their potential risk to the financial system. This ensures:

- a) Clients are onboarded in compliance with Know Your Customer (KYC), i.e. shall include the identity card and/or passport numbers, residential address and telephone numbers, occupation and name, address of employer if applicable and all information concerning the client that may be useful in identifying the client, in addition to the particulars prescribed by the Authority.
- b) Higher risk clients are subject to enhanced due diligence.
- c) Risk based controls are applied consistently and proportionately.
- d) The broker's exposure to financial, operational, reputational and regulatory risk is minimized.
- e) Monitoring efforts are prioritized based on client risk levels.
- f) The brokerage firm maintains regulatory compliance and supports market integrity.

#### 4. Application

The application of these risk-profiling guidelines is intended to ensure that all brokers adopt a consistent, risk-based approach to client onboarding and ongoing relationship management. The guidelines shall be applied as follows:

- a) Client identification and information gathering. (initial risk assessment)  
Brokers shall collect sufficient and relevant client information at the onboarding stage, including identity documents, source of funds, nature of business, geographical location and ownership structure(cooperates).
- b) Risk Factor Evaluation.  
Each client shall be assessed against a defined set of risk factors, such as geographic risk (client domicile, operations in high-risk jurisdiction), nature of business, types of clients, transactional behavior and PEP affiliations.
- c) Risk categorization.  
Based on the factors evaluated, clients shall be categorized into risk levels (Low, Medium or High). The categorizing methodology shall be documented and applied consistently.
- d) Determination of Due Diligence Measures.
  - i. Low risk clients subject to simplified due diligence.
  - ii. Medium risk clients subject to standard due diligence with enhanced monitoring.
  - iii. High risk clients subject to enhanced due diligence, including duly signed senior management approval and additional verification checks. (Refer to section 5.1.) (d) and 5.2.) (c) and KYC requirements.
- e) The Onboarding Decision shall be based on the client's risk category. High risk clients must be approved by designated senior personnel before onboarding.

f) Documentation and record keeping.

All risk assessments, supporting documentation and decisions made during the onboarding process shall be properly documented and retained in accordance with regulatory requirements.

g) Ongoing review and Monitoring.

Brokers shall continuously monitor client behavior and review risk profiles periodically or triggered by specific events (i.e. change of ownership, unusual transactions or regulatory updates)

The guidelines are to be integrated into the broker's internal control systems and compliance programs to ensure they form a key part of the client onboarding process and ongoing risk management framework.

h) Risk categorization

Section	Criteria	Risk Level (Low/Medium/High)
<b>Client type</b>	Individual / Corporate / Trust or Foundation / PEP	(Low/Medium/High)
<b>Geography Risk</b>	Country or residence or operation	(Low/Medium/High)
<b>Nature of Business</b>	Industry sector	(Low/Medium/High)
<b>Source of Funds</b>	Salary / Inheritance /business income	(Low/Medium/High)
<b>Transaction Pattern</b>	Consistent / Unusual / large / irregular	(Low/Medium/High)
<b>Politically Exposed persons (PEP)</b>	YES/NO	High if yes
<b>Sanctions/Watchlist</b>	Appears on the sanction list	High if yes
<b>Client domicile jurisdiction</b>	FATF (Financial action task force) blacklisted, grey listed, offshore	(Low/Medium/High)
<b>Frequency of transactions (existing clients)</b>	High Frequency, medium or low	(Low/Medium/High)

<b>Risk category</b>	<b>Required Action</b>	<b>Definition</b>
<b>Low</b>	Simplified due diligence	A reduced level of customer verification applied when the risk is proven to be low, requiring only minimal identification and verification measures
<b>Medium</b>	Standard due diligence	The normal level of customer verification applied in most cases, involving full identification, verification of the customer and ongoing monitoring of the business relationship
<b>High</b>	Enhanced due diligence and duly signed senior management approval	Required for customers considered high risk. i.e., more rigorous checks and a deeper understanding of the customers activities

#### 4.1. Enhanced due diligence measures for high-risk clients.

- a) Comprehensive client identification and verification i.e. verifying identity with government issued IDs, passports, or corporate registration documents, entity ownership structure, directors and ultimate beneficial owners.
- b) Identify all Ultimate beneficial owners for transparency or control and cross check against politically exposed persons list, sanction lists and adverse media databases.
- c) Identifying sources of funds and wealth verification i.e. obtaining bank statements, tax returns, audited accounts or investment agreements ensuring that the source is consistent with the client's risk profile and expected transactions.
- d) Heightened transaction monitoring, mainly for large or unusual trades and cross-border movements of securities as well as examining the background and purpose of the transactions.
- e) Ongoing due diligence review i.e., periodically updating KYC and risk profiles, changes in ownership or control as well as conducting regular checks against updated PEP/sanction lists.
- f) Require duly signed senior management approval before onboarding or continuing high risk relationships and maintain documented rationale for decisions.
- g) All third-party companies and beneficial owners should be identified, screened and verified (same as direct clients) as well as maintain a legitimate relationship. Mandates should be recorded and filled with proper supporting documentation before trading.
- h) Keep comprehensive records of all due diligence steps, file suspicious transaction reports and ensure full audit trail for regulatory inspections.

## 5. Guidance Notes

### 5.1. Customer risk

- a) Clients affiliated with PEPs shall be subject to enhanced due diligence and assigned to high-risk rating due to the increased potential for involvement in misuse of public funds or money laundering activities.
- b) Media mentions: Negative press, especially in the context of financial irregularities or legal issues, can be categorized as high risk, necessitating more in-depth investigations.
- c) Clients classified as insiders should be categorized as medium to high risk, depending on the level of access to material nonpublic information.
- d) Sanctions: Any links to individuals or entities on international sanction lists immediately raise alarms and are considered as high risk. Sanctioned parties are often involved in activities ranging from terrorism financing to

drug trafficking. The most recently updated sanctions list of the UNSC 18 can be found on the UNSC website or via the following link:

<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

Duly signed senior management approval prior to onboarding and enhanced due diligence should be conducted for all clients who are profiled as high risk.

Sanctioned PEP Associated with PEP Criminal history Complex business structure High net worth Non resident No adverse media Non PEP Individual Resident/Cooperative

<b>Risk category</b>	<b>Required Action</b>
Low	Simplified due diligence
Medium	Standard due diligence
High	Enhanced due diligence and duly signed senior management approval

## 5.2. Geographical risk

Potential risk is associated with a client’s country of origin, residence or a location of business activities particularly in relation to financial crime, political instability, regulatory differences or sanctions exposure.

- Residents of or entities registered in countries with high corruption indexes, lax financial regulations, or prevalent illegal activities will be considered high risk.
- Transactional geography i.e. even if a customer is based in a low-risk region, frequent transactions with high-risk jurisdictions can be considered as medium to high risk.
- Connections to high-risk regions, sanctioned countries or included by the FATF in its black or grey list, beyond direct transactions, affiliations or business interests in high-risk regions can elevate a customer's risk quotient.

<b>Jurisdiction Type</b>	<b>Risk Level</b>
FATF- Compliant, regulated country	Low
Jurisdiction under increased Monitoring FATF (grey list)	Medium
High risk or sanctioned jurisdiction (Black List)	High

Reference link

<https://www.fatf-gafi.org>

Brokers must factor this into onboarding and continuously monitor regulatory updates or geographical changes.

Duly signed senior management approval prior to onboarding and enhanced due diligence should be conducted for all clients who are profiled as high risk.

### 5.3. Transaction risk

Risk arising from the nature, pattern, volume or complexity of a client's transactions, which may indicate potential money laundering, fraud or regulatory breaches.

- a) Transactions that don't align with an existing customer's profile or business operations can be suspicious and considered high risk.
- b) A sudden surge in transaction frequency, especially if the transactions are large, unusual or international, might warrant further investigation.
- c) Significant changes in transaction volumes or amounts that don't align with a customer's financial status can be red flags.

### 5.4. Behavioral indicators

Attitudes, actions or responses of clients that may signal suspicious intent, concealment between declared and actual risk.

- a) Dormant accounts suddenly seeing a flurry of activity, or new accounts with a high volume of transactions, can be indicators of potential illicit activities.
- b) Drastic shifts in transaction types, beneficiaries, or methods without clear justification can raise financial illegal suspicions.
- c) Unwillingness to provide KYC documents or sources of funds should be flagged to high risk.

### 5.5. Politically Exposed Persons (PEP's)

Foreign, domestic and international people entrusted with prominent public functions by a country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials pose a higher risk of involvement in corruption and money laundering due to their influence and access to public funds.

- a) Regularly monitor transactions for suspicious activity and update client's profile periodically or when red flags emerge.
- b) Keep detailed records of PEP status, due diligence steps and approvals.
- c) Duly signed senior management approval is mandatory prior to onboarding any client identified as a PEP or affiliated with a PEP, due to the elevated risk profile.
- d) Verify source of funds for PEPs every time they have instructions to trade.
- e) Continued risk assessment for former PEPs i.e. brokers must consider the continued risk posed by individuals who were PEPs and apply risk-sensitive measures for at least 12 months after they cease being PEPs.

AML/CFT regulations (including FATF recommendations 12 and 22) treat PEPs as high-risk clients and require Enhanced due diligence when onboarding or monitoring them.

<b>Risk category</b>	<b>Required Action</b>
<b>High</b>	Enhanced due diligence and duly signed senior management approval

#### **Political exposed persons affiliation risk assessment check list**

- *Is the client a direct family member of a known PEP? (e.g. spouse, child, parent)*
- *Is the client a close associate of a PEP? (e.g. business advisor, business partner)*
- *Is the client a beneficiary of a trust or legal structure where a PEP is involved?*
- *Does the client hold joint ownership of assets with a PEP?*
- *Is the client employed by or contracted with a company linked to a PEP?*
- *Is the client a shareholder, director or senior manager in an entity associated with a PEP?*
- *Are there transactions involving accounts or entities related to a PEP?*
- *Has the client attempted to hide or deny their affiliation with a PEP?*
- *Is the client from a high-risk jurisdiction with known political corruption?*
- *Has the client's source of funds or wealth been linked to a PEP or government contract?*
- *Has senior management reviewed, approved and duly signed the onboarding or continued relationship?*

## 5.6. Nature of Business

Type of industry, operations and activities a client is engaged in. This helps brokers access the level of risk based on how vulnerable the business is to misuse for money laundering, fraud or other illicit purposes.

Some industries are inherently more susceptible of financial crime, regulatory breaches, making clients from such sectors higher risk.

<b>Sector/Industry</b>	<b>Risk Level</b>	<b>Reason for risk rating</b>
<i>Banks &amp; licensed financial institutions</i>	Low	Regulated, audited, subject to strict compliance oversight
<i>Publicly listed companies</i>	Low	Transparent ownership, public disclosure requirements
<i>Professional services (e.g. Law, Audit)</i>	Medium	May handle client funds, possible exposure to third party transactions
<i>Retail Businesses (shops, traders)</i>	Medium	Often cash intensive with limited documentation
<i>Construction &amp; Real estate</i>	High	Large cash flows, potential for layering illicit funds through property deals
<i>Import/export businesses</i>	Medium	Complex cross-border flows.
<i>Tourism &amp; Hospitality</i>	Medium	Cash intensive, vulnerable to seasonal revenue sources
<i>Casinos and Gaming</i>	High	High volumes of cash, vulnerable to money laundering
<i>Money remittance/Forex bureaus</i>	High	Frequent transactions, cross-border activities, AML exposures

<i>Crypto currency/Virtual Assets</i>	High	Limited regulation, anonymous transactions and cross boarder exposure
<i>Non-Profit organizations</i>	High	May receive foreign funding, operate in sensitive areas, also potential abuse for illicit flows
<i>Shell companies/Holding entities</i>	High	Complex structures, unclear beneficial ownership.
<i>Private security firms</i>	Medium	Cash based clients, Potential exposure to high-risk clients.

***Risk category***   ***Required Action***

<b>Low</b>	Simplified due diligence
<b>Medium</b>	Standard due diligence
<b>High</b>	Enhanced due diligence and duly signed senior management approval

The above risk rating can be adjusted based on other factors (e.g. geographical location, client behavior, transaction size)

<b>Acronyms</b>	
AML	Anti Money Laundering
CFT/P	Countering the financing of terrorism/Proliferation
FATF	Financial Action Task Force
KYC	Know Your Customer
PEP	Politically Exposed Persons