
A BILL FOR AN ACT

To establish the Federated States of Micronesia Monetary Authority, to appropriate the sum of \$350,000 from the General Fund of the Federated States of Micronesia for the fiscal year ending September 30, 1986, therefor, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

CHAPTER 1

GENERAL PROVISIONS

Section 101. Short title. This act may be cited as the "Federated States of Micronesia Monetary Authority Act of 1985."

Section 102. Definitions. In this act, unless the context otherwise requires, the following definitions shall be applicable:

(1) "Authority" means the Monetary Authority of the Federated States of Micronesia as established by this act;

(2) "Bank" means any financial institution whose operations include the acceptance of deposits subject to check or other means of third party transfer;

(3) "Banking business" means:

(a) The business of accepting deposits of money from the public or members thereof, withdrawable or payable upon demand or after a fixed period or after notice, or any similar operations through the frequent sale or placement of bonds, certificates, notes, or other securities, and the use of such funds, either in whole or in part, for loans or investments for the account and at the risk of the person doing such business; and

(b) Any other activity recognized by the Authority as customary banking practice which a financial institution engaging in the activities described in subsection (3)(a) of this section may additionally be authorized to conduct by the Authority;

(4) "Board" means the Board of Directors of the Authority;

(5) "Credit institution" means any financial institution

WM

C.B. No. 4-53

1 other than a bank;

2 (6) "Currency" means currency notes, bank notes, or coins;

3 (7) "Demand liabilities of the Authority" means currency
4 in circulation issued by the Authority, together with demand
5 deposits held by the Authority;

6 (8) "Dollar or dollars" means the currency of the United
7 States of America;

8 (9) "Financial institution" means any person doing
9 banking business; PROVIDED that for the purposes of this act, unless
10 the context otherwise requires, all offices and branches of a
11 financial institution in the Federated States of Micronesia shall be
12 deemed to be one financial institution;

13 (10) "General Manager" means the general manager of the
14 Authority;

15 (11) "Governments" means the National Government of the
16 Federated States of Micronesia and the State governments;

17 (12) "National Government" means the National Government
18 of the Federated States of Micronesia;

19 (13) "Person or persons" means any individual,
20 corporation, partnership, and any other business entity other than a
21 financial institution; and

22 (14) "President" means the President of the Federated
23 States of Micronesia.

24 CHAPTER 2

25 CONSTITUTION OF THE AUTHORITY

1 Section 201. Establishment of Authority. There is hereby
2 established an authority to be known as the Monetary Authority of
3 the Federated States of Micronesia to do business in accordance with
4 the provisions of this act.

5 Section 202. Status. The Authority shall be a body
6 corporate. The existence of the Authority shall be perpetual.

7 Section 203. Powers. The Authority shall have the power to:

- 8 (1) Adopt, alter, and use a corporate seal;
- 9 (2) Enter into contracts and incur other obligations;
- 10 (3) Sue and be sued in its own name;
- 11 (4) Acquire, hold, and dispose of property, whether
12 movable or immovable, and to pledge and mortgage the same; and
- 13 (5) Exercise all powers specifically granted by the
14 provisions of this act to the Authority, and such incidental powers
15 as may be necessary to carry out the powers so granted.

16 Section 204. Purposes. The purposes of the Authority are:

- 17 (1) To regulate the issue, supply, and availability of
18 money and its international exchange;
- 19 (2) To promote monetary stability;
- 20 (3) To supervise and regulate banking business;
- 21 (4) To advise the Governments on banking, monetary, and
22 financial matters, and in particular, on monetary implications of
23 any proposed fiscal or credit policies or operation of the
24 Governments; and
- 25 (5) To promote credit and exchange conditions and a sound

WM

C.B. No. 4-53

1 financial structure conducive to the balanced growth of the economy.

2 Section 205. Offices, branches, agents, and correspondents.

3 The Authority shall have its head office in Kolonia, Pohnpei, and
4 may:

5 (1) Establish branches within the Federated States of
6 Micronesia;

7 (2) Appoint agents and correspondents within the
8 Federated States of Micronesia and abroad; and

9 (3) Upon the unanimous vote of all the members of the
10 board, establish offices abroad.

11 Section 206. Service of documents. The service of any
12 document upon the Authority shall be deemed to be effected by
13 delivering the same or by sending it by registered mail to the
14 general manager.

15 CHAPTER 3

16 CAPITAL, PROFITS, AND RESERVES

17 Section 301. Capital.

18 (1) The authorized capital of the Authority shall be \$1
19 million and may be increased by such amounts as may be proposed by
20 the Board and approved by the President. There shall be paid-up by
21 the National Government \$250,000, upon the establishment of the
22 Authority, and such further amounts as may be proposed by the Board
23 and approved by the President, and appropriated by Congress. All
24 the paid-up capital shall be subscribed and held exclusively by the
25 Governments in such proportions as may be agreed upon by them, and

WM

C.B. No. 4-53

1 shall not be transferable or subject to encumbrance. No reduction
2 of capital shall be effected except by an amendment to this act.

3 (2) The President, notwithstanding any other provision of
4 this act, shall cause to be transferred to the ownership of the
5 Authority nonnegotiable, noninterest bearing securities issued by
6 the National Government, from time to time for such an amount as, in
7 the judgment of the Board, is necessary for the purpose of
8 preserving the paid-up capital from any impairment.

9 Section 302. Profits. The net profits of the Authority for
10 each financial year shall be determined after allowing for the
11 expenses of operation for that year and after providing:

12 (1) For bad and doubtful debts and depreciation in
13 assets; and

14 (2) With the approval of the President, for such other
15 expenses as the Board may deem necessary.

16 Section 303. General reserve.

17 (1) The Authority shall establish a general reserve to
18 which shall be allocated at the end of each financial year of the
19 Authority an amount equal to 50 percent of the net profits until the
20 general reserve equals two times the paid-up capital of the
21 Authority. With the approval of the President, the amount to be
22 transferred to the general reserve may be increased to exceed that
23 annual proportion, or the total of the general reserve may be
24 increased beyond two times the paid-up capital of the Authority.

25 (2) After transfers to the general reserve have been made

WM

C.B. No. 4-53

1 under subsection (1) of this section, 50 percent of the remainder of
2 the net profits for the financial year shall be applied to the
3 redemption of any securities of the National Government held by the
4 Authority which have been issued under section 301(2).

5 (3) The balance of the net profits for the financial year
6 remaining after all deductions under subsections (1) and (2) of this
7 section have been made shall be paid to the Governments in the same
8 proportions as agreed upon by them pursuant to subsection (1) of
9 section 301 of this act, within 120 days after the end of the
10 financial year.

11 (4) No deduction authorized under subsections (1) and (2)
12 of this section shall be required to be made if, in the judgment of
13 the Board, the assets of the Authority are, or after the deduction
14 or payment will be, less than the sum of its liabilities and paid-up
15 capital.

16 Section 304. Revaluation reserve account.

17 (1) The gains or losses arising from any change in the
18 valuation of the Authority's assets or liabilities in, or
19 denominated in, gold, foreign currencies, or other units of account,
20 as a result of changes in the value of the currency of the Federated
21 States of Micronesia, or of any change in the values or exchange
22 rates of such assets with respect to the currency of the Federated
23 States of Micronesia, shall be credited or debited to a revaluation
24 reserve account and neither the profits nor the losses arising from
25 any such changes shall be included in the computation of the annual

1 profits and losses of the Authority.

2 (2) The losses arising from any such change shall be set
3 off against any credit balance in the revaluation reserve account
4 and, notwithstanding any other provisions of this act, if such
5 balance is nonexistent or insufficient to cover such losses, the
6 National Government shall issue to the Authority nonnegotiable,
7 noninterest bearing securities to the extent of the deficiency.

8 (3) Any credit balance in the revaluation reserve account
9 at the end of each financial year of the Authority shall be applied
10 first, on behalf of the National Government, to the redemption of
11 any securities issued under subsection (2) of this section and
12 outstanding; and if thereafter the remaining balance exceeds 5
13 percent of the Authority's liabilities on account of currency issued
14 and remaining outstanding the greater of:

15 (a) One-fifth of that remaining balance; or

16 (b) Five percent of said liabilities as of the end
17 of the past preceding financial year of the Authority shall be paid
18 to the Governments in the same proportions as agreed upon by them
19 pursuant to subsection (1) of section 301; PROVIDED that when the
20 remaining balance does not exceed 5 percent of the Authority's
21 liabilities on account of currency issued and remaining outstanding,
22 the entire amount of the balance shall be paid to the Governments in
23 the same proportions as agreed upon by them pursuant to subsection
24 (1) of section 301 of this act.

25 (4) No credits or debits shall be made to the revaluation

WM

C.B. No. 4-53

1 reserve account except in accordance with the provisions of this
2 section.

3 CHAPTER 4

4 ADMINISTRATION

5 Section 401. Board of Directors.

6 (1) The powers of the Authority shall be vested in a
7 Board of Directors which shall be responsible for the policy and
8 general administration of the Authority.

9 (2) The Board shall have the power to make, alter, or
10 repeal bylaws, regulations, and orders for the purpose of giving
11 effect to the provisions of this act.

12 (3) The Board shall consist of seven members; the
13 Secretary of Finance, who shall serve by virtue of his office; the
14 general manager; and five other appointed directors.

15 (4) The general manager shall be appointed by the
16 President, upon the recommendation of the Board and with the advice
17 and consent of the Congress of the Federated States of Micronesia,
18 from among persons of experience or standing in financial matters,
19 for a term of 3 years, and shall be eligible for reappointment. He
20 shall be appointed on such terms and conditions as may be set forth
21 in his letter of appointment. Said terms and conditions may not be
22 altered to his disadvantage during his tenure.

23 (5) The five other appointed directors shall be appointed
24 by the President from among persons of experience or standing in
25 financial matters with the advice and consent of the Congress of the

WM

C.B. No. 4-53

1 Federated States of Micronesia, for a term of 3 years each, and
2 shall be eligible for reappointment as follows:

3 (a) One at-large member; and

4 (b) One member from each of the four States,
5 appointed after consultation with the Governors of the respective
6 States.

7 (6) The Chairman of the Board shall be the Secretary of
8 Finance. In the event of the absence or disability of the Chairman,
9 the Board shall elect a temporary chairman from among its members.

10 Section 402. General manager and the other appointed directors.

11 (1) The general manager shall serve as chief executive
12 officer of the Authority, to be responsible to the Board for the
13 implementation of its policies and the day-to-day management of the
14 Authority.

15 (2) The general manager shall have the power to act,
16 contract, and sign instruments and documents on behalf of the
17 Authority. He may, pursuant to resolution of and to the extent
18 deemed appropriate by the Board, delegate such power to other
19 officers of the Authority.

20 (3) The general manager, while holding office, shall not,
21 without the prior approval of the President, engage in any other
22 business, profession, or employment, whether remunerated or not;
23 except that he may:

24 (a) Act as a member of any board or commission to
25 which he may be appointed by the President; and

1 (b) Become governor, alternate governor, director,
2 or member of any organization, by whatever name called, of any
3 international monetary authority established under any agreement or
4 convention to which the Governments shall have adhered or given
5 support or approval.

6 (4) The general manager shall not receive any
7 remuneration for holding the position of general manager from any
8 source other than the Authority without the written consent of the
9 Chairman of the Board.

10 (5) Fees and allowances to be received by the other
11 members of the Board other than the general manager shall be
12 determined by the Board.

13 (6) The general manager or any one of the other appointed
14 directors may resign his office upon giving notice in writing to the
15 President. Such resignation will be effective upon its acceptance
16 by the President.

17 (7) The general manager or any one of the other appointed
18 directors shall be removed from his office by the President only
19 upon a finding by a majority of the members of the Board of:

20 (a) Incapacity; or

21 (b) Serious misconduct in office substantially
22 prejudicing the interest of the Authority.

23 (8) If the general manager or any one of the other
24 appointed directors dies, resigns, is removed from office, or
25 otherwise vacates his office before the expiration of the term for

WMM

C.B. No. 4-53

1 which he has been appointed, another shall be appointed in his
2 place, as soon as may be practicable, for the unexpired period in
3 the manner specified in section 401(4) or 401(5) of this act, as the
4 case may be.

5 (9) The Board shall make provision in the bylaws for
6 cases of temporary absence or disability of the general manager or
7 any one of the other appointed directors.

8 Section 403. Meetings of the Board.

9 (1) The Board shall meet as often as the Chairman may
10 consider that the business of the Authority may require, but not
11 less frequently than once every 2 months. Pursuant to its bylaws,
12 the Board may provide for regular meetings for which no notice shall
13 be necessary and for special meetings to be convened at the written
14 request of two directors for which adequate notice shall be required.

15 (2) Four members of the Board shall form a quorum at any
16 meeting and, unless otherwise provided in this act, decisions shall
17 be adopted by a simple majority of the votes of the members
18 present. In the event of a tie, the Chairman shall cast the
19 tie-breaking vote.

20 Section 404. Power to appoint officers and employees.

21 (1) The Board may appoint and employ, at such
22 remuneration and on such terms and conditions as it may prescribe,
23 such officers and employees, agents, and correspondents as the Board
24 may consider necessary for the efficient functioning of the
25 Authority.

WM

C.B. No. 4-53

1 (2) Officers and employees of the Authority shall be
2 exempt from the National Public Service System Act of the Federated
3 States of Micronesia.

4 (3) No salary, fee, wage, or other remuneration or
5 allowance paid by the Authority shall be computed by reference to
6 the net or other profits of the Authority.

7 Section 405. Conflict of interest.

8 (1) No member of the Board shall act as a delegate of any
9 commercial, financial, agricultural, industrial, or other business
10 interest, or receive or accept directions therefrom with respect to
11 duties to be performed under this act.

12 (2) The members of the Board shall fully disclose to the
13 Board any commercial, financial, agricultural, industrial, or other
14 business interests in which they or members of their families may at
15 any time directly or indirectly have an interest, and shall refrain
16 from voting on any matter related thereto which becomes the subject
17 of Board action; PROVIDED that such an interest shall not disqualify
18 the interested party for the purpose of constituting a quorum.

19 (3) The disclosure referred to in the preceding
20 subsection shall be made at the commencement of Board discussion of
21 matters concerning which a member is an interested party.

22 (4) Neither the members of the Board nor any officers or
23 employees of the Authority shall receive any gift or advantage for
24 themselves or persons with whom they have family, business, or
25 financial connections if the acceptance thereof would result, or

WM

C.B. No. 4-53

1 give the appearance of resulting, in the diminution of their
2 impartial devotion to their duties under this act.

3 (5) Any person who violates the provisions of this
4 section shall be guilty, upon conviction in a court of law, of an
5 offense and subject to a fine of not more than \$2,000, or to
6 imprisonment for not more than 3 months, or to both such fine and
7 imprisonment.

8 Section 406. Secrecy.

9 (1) Except for the purpose of the performance of his
10 duties, or when required to do so by any court, or under the
11 provision of any law, no member of the Board, or officer or employee
12 of the Authority shall disclose to any person any information
13 relating to the affairs of the Authority or of any financial
14 institution, or other person, firm, company, or organization, which
15 he has acquired in the performance of his duties.

16 (2) Any person who violates the provisions of subsection
17 (1) of this section shall be guilty, upon conviction in a court of
18 law, of an offense and subject to a fine of not more than \$2,000, or
19 to imprisonment for not more than 3 months, or to both such fine and
20 imprisonment.

21 CHAPTER 5

22 CURRENCY

23 Section 501. Monetary unit. The monetary unit of the
24 Federated States of Micronesia shall be the dollar, or such other
25 unit as is prescribed by law.

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WM

C.B. No. 4-53

1 Federated States of Micronesia;

2 (e) Treasury bills issued by foreign governments
3 specified, from time to time, by the Board; and

4 (f) Securities issued or guaranteed by foreign
5 governments or international financial institutions specified, from
6 time to time, by the Board.

7 (2) The Authority shall use its best efforts to maintain
8 the external reserve at a level adequate for the international
9 transactions of the Federated States of Micronesia. In judging the
10 adequacy of the external reserve, the Authority shall be guided by,
11 among other factors, the prospective receipts and payments of
12 foreign exchange in the Federated States of Micronesia.

13 (3) If the external reserve has declined, or, in the
14 judgment of the Board, appears likely to decline in such a manner as
15 to jeopardize the adequacy of such reserve in light of subsection
16 (2) of this section, the Authority shall submit to the President a
17 report on the reserve position and the causes which have led or may
18 lead to such a decline, together with recommendations concerning the
19 measures that may be deemed necessary to forestall or otherwise
20 remedy the situation. The Authority shall make further reports and
21 recommendations at intervals of not more than 6 months until such
22 time as, in its judgment, the situation is rectified.

23 CHAPTER 7

24 FOREIGN EXCHANGE OPERATIONS

25 Section 701. Depository of official external assets. The

WM

C.B. No. 4-53

1 Authority shall be the depository of the official external assets of
2 the Federated States of Micronesia; PROVIDED that the Authority may
3 designate such agents as it may select in which these assets may be
4 held.

5 Section 702. Operations in gold and foreign exchange. The
6 Authority may:

7 (1) Buy, sell, or deal in gold coins or bullion or other
8 precious metals;

9 (2) Buy, sell, or deal in foreign exchange, using for
10 these purposes any of the instruments commonly used by bankers;

11 (3) Purchase and sell treasury bills and other securities
12 issued or guaranteed by foreign governments or international
13 institutions;

14 (4) Open and maintain deposit accounts abroad; and

15 (5) Open and maintain deposit accounts and act as agent
16 or correspondent for foreign central banks, foreign financial
17 institutions, foreign governments, foreign government agencies and
18 institutions, and international institutions.

19 Section 703. Limitations on operations of foreign exchange.

20 The Authority shall deal in connection with the operations
21 enumerated in section 702 of this act, only with financial
22 institutions operating in the Federated States of Micronesia, the
23 Governments and their boards and agencies, State and local
24 government bodies, foreign central banks, foreign financial
25 institutions, foreign governments, foreign government agencies and

WM

C.B. No. 4-53

1 institutions, and international institutions; PROVIDED that other
2 entities or persons may be authorized as foreign exchange dealers
3 subject to such rules and regulations as the Authority may prescribe.

4 Section 704. Determination of buying and selling rates of gold
5 and foreign exchange. The Authority shall, from time to time,
6 determine the rates at which it will buy, sell, or deal in gold and
7 foreign currencies. The Authority may also determine the rates at
8 which financial institutions will buy, sell, or deal in gold and
9 foreign currencies; PROVIDED that in making such determinations, the
10 Authority shall have due regard for the obligations which the
11 Federated States of Micronesia has assumed in accordance with the
12 provisions of any international monetary agreements to which it is a
13 party or to which it has adhered.

14 CHAPTER 8

15 RELATIONS WITH FINANCIAL INSTITUTIONS

16 Section 801. Opening accounts for financial institutions.

17 (1) The Authority may open accounts for and accept
18 deposits from financial institutions doing banking business in the
19 Federated States of Micronesia under such terms and conditions,
20 including the payment of interest and the establishment of charges
21 thereon, as the Board may, from time to time, determine.

22 (2) The Authority may, subject to the prior approval of
23 the Board, open and maintain deposit accounts with financial
24 institutions doing banking business in the Federated States of
25 Micronesia.

WMM

C.B. No. 4-53

1 Section 802. Operations with account holders. The Authority
2 may:

3 (1) Purchase from, sell to, and discount and rediscount
4 for financial institutions bills of exchange and promissory notes
5 drawn or made for bona fide commercial, industrial, or agricultural
6 purposes, bearing two or more good signatures, at least one of which
7 shall be that of a financial institution, and maturing within 90
8 days from the date of their acquisition by the Authority; PROVIDED
9 that the Authority may purchase from, sell to, and discount and
10 rediscount bills of exchange and promissory notes which mature
11 within 180 days from the date of their acquisition drawn or made for
12 the purpose of financing seasonal agricultural operations or
13 marketing of crops;

14 (2) Purchase from, sell to, and discount and rediscount
15 for financial institutions any treasury bills and other securities
16 of the Governments forming part of a public issue and maturing
17 within 90 days from the date of their acquisition by the Authority;

18 (3) Grant to financial institutions advances, whether by
19 loans or overdrafts, for periods not exceeding 90 days:

20 (a) Secured by:

21 (i) Instruments specified in subsections (1) and
22 (2) of this section;

23 (ii) Warehouse warrants and documents of title
24 issued with respect to staple commodities or other goods duly
25 insured; PROVIDED that the Authority shall determine, from time to

WM

C.B. No. 4-53

1 time, the maximum percentage of advances in relation to the current
2 value of such commodities or goods; or

3 (iii) Holdings of any such assets as the
4 Authority is permitted to buy, sell, or deal in pursuant to
5 subsections (1), (2), and (3) of section 702 of this act;

6 (b) Unsecured by such assets, on terms and
7 conditions which the Board may prescribe; PROVIDED that no advance
8 shall be made available under this subsection for an amount in
9 excess of 20 percent of the deposit liabilities of the borrower.

10 Section 803. Determination of Authority rates. The Authority
11 shall fix and publicly announce, from time to time, its rates for
12 discounts, rediscounts, advances, loans, or overdrafts. It may
13 establish differential rates and ceilings for various classes of
14 transactions or maturities.

15 Section 804. Required reserves.

16 (1) The Authority may, from time to time, prescribe by
17 any means of notification it deems appropriate and by written notice
18 to the main office in the Federated States of Micronesia of each
19 financial institution the maintenance of required reserves,
20 including marginal required reserves, against deposit and other
21 similar liabilities. Such reserves shall ordinarily be maintained
22 by way of cash holdings with the financial institution or by way of
23 deposits in current accounts with the Authority, or both in such
24 proportions as the Authority may prescribe; PROVIDED that the Board
25 may, whenever circumstances warrant, permit the maintenance of part

WM

C.B. No. 4-53

1 of the required reserves in the form of assets other than cash
2 holdings with the financial institution or deposits in current
3 accounts with the Authority.

4 (2) The Authority may prescribe different reserve ratios
5 for different classes of deposits and other similar liabilities and
6 may prescribe the method of their computation; PROVIDED that:

7 (a) The total amount of reserves which the financial
8 institutions are required to hold shall not exceed 40 percent of the
9 total deposits and other similar liabilities to which reserve ratios
10 have been made applicable;

11 (b) The reserve ratios shall be uniform for all
12 banks and for all credit institutions, although the ratios may
13 differ between the two classes of financial institutions; and

14 (c) Any such prescription of, or increase in, the
15 required reserve ratios shall be effective only after reasonable
16 notice thereof has been given to the financial institution.

17 (3) Required reserves held with the Authority may, under
18 such regulations and subject to such charges as may be prescribed by
19 the Authority, be withdrawn by the financial institutions for the
20 purpose of meeting their existing liabilities and may further serve
21 as a basis for the clearance of checks and the settlement of
22 balances among financial institutions.

23 (4) The Authority may impose on any financial institution
24 which fails to maintain required reserves in the appropriate ratio
25 prescribed under this section a penalty charge at an annual rate not

WM

C.B. No.

4-53

1 to exceed one-tenth of 1 percent per day on the amount of the
2 deficiency. Such penalty charge shall be payable to the Authority
3 on such date as may be prescribed by it and may be recovered by
4 deduction from any balance of the financial institution with the
5 Authority.

6 Section 805. Minimum and maximum interest rates.

7 (1) The Authority may, from time to time, prescribe by
8 regulations promulgated in accordance with section 1301 of this act,
9 which regulations shall be conveyed with a written notice thereof to
10 the main office in the Federated States of Micronesia of each
11 financial institution:

12 (a) The method of computation and minimum and
13 maximum rates of interest payable with respect to deposits and other
14 similar liabilities;

15 (b) The permissible purposes, aggregate ceilings,
16 maximum amounts beyond which the Authority's approval is necessary,
17 maximum maturities, maximum interest chargeable in accordance with
18 usury limits on major loans as established by Congress, and minimum
19 cash margin or security required, with respect to:

20 (i) The making of advances, whether by loans
21 or overdrafts, and investments;

22 (ii) The discounting of bills and notes;

23 (iii) The issuing of letters of credit; and

24 (iv) The granting of acceptance and other

25 credit.

WM

C.B. No. 14-53

1 (2) The provisions of subsection (1) of this section may
2 be made applicable by the Authority to every person, other than a
3 financial institution, who, during any calendar year, extends credit
4 in excess of an amount to be determined, from time to time, by the
5 Board. The provisions of subsection (1) of this section shall be
6 made applicable to persons other than financial institutions
7 pursuant to this subsection through regulations promulgated in
8 accordance with section 1301 of this act, and only after written
9 notice of such regulations has been given to such persons. The
10 Authority shall have power to examine the accounts, books, and
11 papers of any person that it has reason to suspect is extending or
12 has extended credit in violation of this subsection.

13 (3) In order to avoid possible evasion of the prescribed
14 maximum interest rates, the Board may also fix the maximum rates
15 that financial institutions may pay to or collect from their
16 customers in the form of commissions, discounts, charges, fees, or
17 payments of any kind.

18 (4) Notices issued under this section shall apply
19 uniformly in the Federated States of Micronesia and shall take
20 effect on a date to be specified in the notice, which shall not be
21 earlier than 30 days after the notice is given; PROVIDED that the
22 Authority in its notices may differentiate, according to the nature
23 of their business, among banks, credit institutions, and other
24 creditors or classes thereof with respect to the items set out in
25 subsection (1) of this section.

WMM

C.B. No. 4-53

1 (5) Any financial institution in violation of the
2 regulations promulgated to give effect to subsection (1) of this
3 section may be required to pay to the Authority for each such
4 violation a penalty charge not to exceed \$500 for every day during
5 which such violation continues.

6 (6) Any person to whom the provisions of subsection (1)
7 have been made applicable pursuant to subsection (2) shall be guilty
8 of an offense if:

9 (a) It is in violation of the regulations
10 promulgated to give effect to subsection (1) of this section; or

11 (b) It supplies false information or fails to
12 furnish within a reasonable time, and before the expiration of a
13 request so to furnish, any information required by the Authority to
14 satisfy the Authority that it is complying with this section.

15 (7) Any person who commits an offense under subsection
16 (6) of this section shall be subject upon conviction in a court of
17 law to a fine of not more than \$100 for every day during which the
18 violation continues.

19 Section 806. Provision of information.

20 (1) Every financial institution shall furnish to the
21 Authority, at such time and in such manner as the Authority may
22 prescribe, such information and data as the Authority may require
23 for the proper discharge of its functions and responsibilities. In
24 order to verify compliance with directions issued under sections 803
25 and 804 of this act, the Authority may require any person who is or

WM

C.B. No. 4-53

1 has been made subject thereto to open its books for inspection or
2 examination.

3 (2) The Authority may publish, in whole or in part, in
4 aggregate form for classes of financial institutions determined in
5 accordance with the nature of their business, at such times as it
6 may decide, the information or data furnished under subsection (1)
7 of this section; PROVIDED that no information shall be published
8 which would disclose the affairs of any person who is a customer of
9 a financial institution unless the written consent of such
10 interested party has been previously obtained.

11 (3) Any director, officer, or employee of a financial
12 institution or any person who may be subject to the provisions of
13 this act under section 805(2) of this act who:

14 (a) Fails or refuses to supply information or data
15 under subsection (1) of this section; or

16 (b) In complying with such requirements furnishes
17 any information or data which he knows to be false in any material
18 respect,
19 shall be guilty upon conviction in a court of law of an offense and
20 subject to a fine of not more than \$2,000, or to imprisonment for 6
21 months, or to both such fine and imprisonment.

22 Section 807. Examination of financial institutions and fee.

23 (1) The Authority may, periodically or at its discretion,
24 cause an examination to be made by any of its officers or by any
25 other qualified person appointed for that purpose by the Authority,

WM

C.B. No. 4-53

1 of any financial institution, and to examine its books, records,
2 documents, and accounts for the purpose of ascertaining the nature
3 of its business and the condition of its affairs and to ascertain
4 whether such financial institution is complying with the provisions
5 of this act and other related laws.

6 (2) The financial institutions which are subject to
7 regulation, supervision, and examination by the Authority shall be
8 responsible to the Authority for the cost of maintaining the
9 corresponding, supervising and examining department or unit and, for
10 this purpose, shall pay to the Authority, by January 15 of each
11 year, an annual fee in an amount to be determined by the Board in
12 the manner provided in this subsection. The fee to be paid by each
13 financial institution shall be an amount equal to a prescribed
14 percentage of its average total assets during the preceding calendar
15 year, as shown on its end-of-month balance sheets; PROVIDED that
16 said percentage shall not exceed one-tenth of 1 percent.

17 (3) Any person authorized under this section to examine
18 or inspect a financial institution shall be subject to the
19 provisions of section 406 of this act and may:

20 (a) Order any director, officer, or employee of any
21 financial institution to furnish such information as he may consider
22 necessary for the purpose of the examination; and

23 (b) Order any such director, officer, or employee to
24 produce for examination any books, records, or other documents in
25 his possession containing or likely to contain any such information.

WM

C.B. No. 4-53

1 (4) Any person who:

2 (a) Fails or refuses to comply with any order of an
3 authorized person made pursuant to subsections (1) or (3) of this
4 section; or

5 (b) In complying with any such order, furnishes any
6 information or produces any book, record, or other document which he
7 knows to be false in any material respect,
8 shall be guilty upon conviction in a court of law of an offense and
9 subject to a fine of not more than \$2,000, or to imprisonment for 6
10 months, or to both such fine and imprisonment.

11 Section 808. Foreign working balances. The Authority may
12 prescribe the maximum amount of the working balances which financial
13 institutions may hold in foreign currencies generally or in any
14 specified currency or currencies.

15 Section 809. Establishment of clearing house. The Authority
16 may at a suitable time in conjunction with the banks organize a
17 clearing house in premises provided by the Authority in such places
18 as may be desirable.

19 CHAPTER 9

20 RELATIONS WITH THE GOVERNMENT

21 Section 901. Authority to be banker, advisor, fiscal agent,
22 and depository to the Governments.

23 (1) The Authority shall be the banker, advisor, and
24 fiscal agent to the National Government on monetary and financial
25 matters and shall be the depository of National Government funds.

1 The Authority may, at the option of each State, be the banker,
2 advisor, and fiscal agent to the State governments on monetary and
3 financial matters and may be the depository of State government
4 funds; PROVIDED that in such cases, for such periods of time, and on
5 such other terms and conditions as may be agreed upon between the
6 Governments and the Authority:

7 (a) The Authority may act in such capacities to
8 government institutions, agencies, and local government bodies; and

9 (b) The Governments may maintain working balances
10 with and generally use the services of other financial institutions.

11 (2) The Governments may request the Authority to render
12 advice and to furnish reports on matters relating to the purposes of
13 the Authority.

14 (3) It shall be the duty of the Authority to inform and
15 advise the Governments concerning any matter which, in the opinion
16 of the Authority, is likely to effect the achievement of its
17 purposes.

18 Section 902. Depository and fiscal agent of international
19 institutions. The Authority shall, upon designation by the
20 President, serve as the depository and fiscal agent of, and the
21 institution through which dealing shall be conducted with,
22 international financial institutions of which the Federated States
23 of Micronesia is a member.

24 Section 903. Credit to the Governments, their institutions,
25 and agencies. Except in accordance with sections 802(2),

WMM

C.B. No. 4-53

1 802(3)(a), 904, and 905 of this act, the Authority shall not,
2 directly or indirectly, made advances to, or acquire the notes,
3 bills, securities, or other evidence of debt from, or guaranteed by,
4 the Governments, their institutions, agencies, or State and local
5 government bodies; PROVIDED that this section shall not operate to
6 prevent the acquisition by the Authority of securities transferred
7 to it by the National Government in accordance with section 301 or
8 304 of this act.

9 Section 904. Advances to the Governments.

10 (1) The Authority may make temporary advances, subject to
11 repayment within 3 months following the end of the financial year in
12 which they were granted, at such amounts and rates of interest as
13 may be agreed upon between the parties:

14 (a) To the Governments; and

15 (b) With the approval of the President, to National
16 Government institutions, agencies, and State and local government
17 bodies.

18 (2) Without limiting the generality of the provisions of
19 subsection (1) of this section, the Authority is expressly
20 authorized to make advances to the Governments, on such terms and
21 conditions as may be agreed upon, with respect to subscriptions and
22 other payments resulting from, or incidental to, the membership of
23 the Federated States of Micronesia in any international bank or
24 international monetary authority established under governmental
25 auspices, the participation of the Federated States of Micronesia in

1 any account thereof, and any transactions and operations undertaken
2 in connection therewith.

3 Section 905. Acquisition of evidence of indebtedness issued by
4 the Governments. The Authority may purchase, hold, and sell notes,
5 bills, securities, or other evidences of indebtedness issued or
6 guaranteed by State or National Government bodies, which were
7 publicly offered for sale or form part of an issue which is being
8 made to the public at the time of acquisition by the Authority.

9 Section 906. Consultation on budget and credit operations.

10 (1) The Authority shall be consulted by:

11 (a) The National Government in the preparation of
12 its budget, to the end of reaching an understanding as to the total
13 amount of credit that may be expected to be extended by the
14 Authority to the National Government during the following financial
15 year through the acquisition of indebtedness under sections 802(2)
16 and 905 of this act, the acceptance of securities as collateral
17 under section 802(3)(a) of this act, and the making of advances
18 under section 904 of this act; and

19 (b) The National Government and its institutions and
20 agencies at any time that either domestic or foreign credit
21 operations are contemplated. In the event that, in the opinion of
22 the Board, such operations individually or collectively appear to be
23 of a magnitude inappropriate to prevailing economic conditions, the
24 Authority shall report to the President, drawing attention to the
25 situation and recommending measures to remedy the situation.

WM

C.B. No.

4-53

(2) The Authority may be consulted by:

(a) The State governments in the preparation of their budgets, to the end of reaching an understanding as to the total amount of credit that may be expected to be extended by the Authority to the State governments during the following financial year through the acquisition of evidence of indebtedness under sections 802(2) and 905 of this act, the acceptance of securities as collateral under section 802(3)(a) of this act, and the making of advances under section 904 of this act; and

(b) The State governments and State and local government bodies at any time that either domestic or foreign credit operations are contemplated. In the event that, in the opinion of the Board, such operations individually or collectively appear to be of a magnitude inappropriate to prevailing economic conditions, the Authority shall report to the President, drawing attention to the situation and recommending measures to remedy the situation.

Section 907. Report to the President. Whenever, in the opinion of the Board, the volume of credit being extended by the Authority to the Governments, their institutions, agencies, and State and local government bodies by advances under section 904 of this act, the acquisition of evidences of indebtedness under sections 802(2) and 905 of this act, or the acceptance of securities as collateral under section 802(3)(a) of this act jeopardizes the ability of the Authority to achieve its purposes under this act, the Authority shall submit a report to the President, drawing attention

WM

1 to the situation, analyzing its causes, and, at its discretion,
2 recommending measures which it deems necessary to forestall or
3 otherwise remedy the situation.

4 CHAPTER 10

5 ACCOUNTS

6 Section 1001. Financial year. The financial year of the
7 Authority shall coincide with the financial year of the National
8 Government.

9 Section 1002. Accounts and annual statements.

10 (1) The Board shall cause to be kept proper books of
11 accounts and other books and records in relation thereto in which
12 shall be recorded all the financial transactions of the Authority.

13 (2) The Authority shall, as soon as may be practicable
14 after the end of every month, prepare a statement of the condition
15 of the Authority as of the close of business on the last business
16 day of each month and publish the same by any means it deems
17 appropriate.

18 (3) The Authority shall, within 90 days after the end of
19 each financial year, submit to the President a copy of its annual
20 financial statements certified by the auditor who prepared them,
21 together with a report on its operations during the year, and shall
22 publish such financial statements and reports after they have been
23 approved by the President.

24 Section 1003. Audit. The account of the Authority shall be
25 audited at least once every financial year by the Public Auditor of

WM

C.B. No. 4-53

1 the Federated States of Micronesia, or his duly authorized
2 representative, or by a suitably qualified auditor appointed by the
3 Board.

4 CHAPTER 11

5 MISCELLANEOUS PROVISIONS

6 Section 1101. Prohibited transactions. The Authority shall
7 not:

8 (1) Engage in the trade or participate directly or
9 indirectly in the ownership of any financial, agricultural,
10 commercial, industrial, or other enterprises, except to the extent
11 provided in subsection (4) of this section;

12 (2) Purchase or retain ownership of real estate except
13 insofar as is necessary for the conduct of its business;

14 (3) Make unsecured advances, whether by loans or
15 overdrafts, except as provided in sections 802(3)(b) and section 904
16 of this act;

17 (4) Make advances, whether by loans or overdrafts,
18 secured otherwise than as set forth in this act; PROVIDED that
19 should any debts due to the Authority be in jeopardy, the Authority
20 may secure such debts in real or other property, and, if the
21 security interest is enforced, acquire and hold such property, but
22 with a view to the sale thereof as soon as is practicable;

23 (5) Accept shares of stock as collateral security, except
24 as provided in subsection (4) of this section; and

25 (6) Open accounts for or accept deposits from any person

WM

C.B. No.

4-53

1 except as provided in sections 701, 801, 901, and 902 of this act.

2 Section 1102. Exemption from taxes. The Authority shall be
3 exempt from all National Government, State government, and local
4 taxes, stamp duties, fees, excise tax, and all other taxes on its
5 profits, operations, capital, property, and documents.

6 CHAPTER 12

7 APPROPRIATIONS

8 Section 1201. Appropriation of funds. The sum of \$350,000 is
9 hereby appropriated from the General Fund of the Federated States of
10 Micronesia for the fiscal year ending September 30, 1986, of which
11 \$250,000 shall represent the payment of the initial paid-up capital
12 of the Authority pursuant to section 301(1) of this act, and
13 \$100,000 shall cover the initial operating costs or expenses of the
14 Authority, and generally, for the purpose of carrying out the
15 provisions of this act. The Board shall be the allottee of these
16 funds. The authority to obligate these funds shall not lapse at the
17 end of the financial year.

18 CHAPTER 13

19 REGULATIONS

20 Section 1301. Promulgation of regulations.

21 (1) Regulations adopted by the Authority shall have the
22 full force and effect of law.

23 (2) The process for the adoption of regulations by the
24 Authority is expressly exempt from the requirements of the
25 administrative procedures set forth in title 17 of the Code of the

WM

C.B. No. 4-53

Federated States of Micronesia, but the Authority nevertheless shall publish its proposed regulations and afford the public a reasonable opportunity to present its views prior to the adoption of any regulation.

CHAPTER 14

EFFECTIVE DATE

Section 1401. Effective date. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Date: 5/21/85

Introduced by:

John R. Haglelgam
(by request)