TWENTY-FOURTH CONGRESS OF THE FEDERATED STATES OF MICRONESIA

SECOND REGULAR SESSION, 2025 C.B. NO. 24-81

A BILL FOR AN ACT

To further amend title 53 of the Code of the Federated States of Micronesia (Annotated), as amended, by amending sections 1002 and 1006 of chapter 10, for the purpose of establishing comprehensive investment guidelines requirements, modernizing the investment framework for the Social Security Retirement Fund, to provide greater flexibility and institutional management capabilities, and for other purposes.

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

Section 1. Section 1002 of title 53 of the Code of the Federated States of Micronesia (Annotated), as amended, is hereby further amended to read as follows:

"Section 1002. Investment of Fund.

(1) The Social Security Retirement Fund shall consist of funds or assets transferred from the Trust Territory Social Security Retirement Fund, employee's contributions, employer's contributions, penalties and interest collected, gifts, donations, and fund transfers authorized by law, plus interest, dividends and other earnings from the investments of the Fund, less benefit payments and expenses incurred in the operation of the Social Security System, hereinafter referred to as the "System."

(2) The reserves of the Fund in excess of the requirements for the current operations shall be invested and reinvested by or under the authority of the Board. [~~The Board shall invest its reserves to ensure the greatest return~~

~~commensurate with sound financial policies.~~] The Board shall adopt comprehensive investment guidelines that prioritize the prudent investment of the Fund reserves in a diversified portfolio designed to ensure the greatest return commensurate with sound financial policies and the long-term security of the System.

(3) Subject to the investment guidelines established pursuant to subsection (2) and the authorized investments specified in section 1006 of this chapter, [~~The~~]the Board shall have the full power to manage the investments as in its considered judgment seems most appropriate to the requirements and objectives of the system, including but not limited to the power to hold, sell, purchase, convey, assign, transfer, dispose of, lease, subdivide, or partition any asset held or proceeds thereof; to execute or cause to be executed relevant documents; to enter into protective agreements, execute proxies, or grant consent; and to do all other things necessary or appropriate to its position as an owner or creditor.

(4) All proceeds and income from investments, of whatever nature, shall be credited to the account of the Fund. Transactions in marketable securities shall be carried out at the prevailing market prices.

(5) The Board may commingle securities and monies, subject to the crediting of receipts and earnings and charging of

payments to the appropriate accounts established by this act.

(6) No member of the Board and no employee of the Board, nor anyone in the immediate family of such member or employee, shall have any direct or indirect interest in the income, gains or profits of any investments made by the Board, nor shall any such person receive any pay or emolument for services in connection with any investment made by the Board. Participation in the Fund under the terms of this act shall not be construed to include interest, pay or emolument within the meaning of this subsection.

(7) No member, employee or agent of the Board, nor any person in the immediate family of such member, employee or agent, shall become an endorser or surety or in any manner an obligator of investments made by the Fund, nor shall any member, employee or agent be held liable for actions taken in good faith in the performance of his duties.

(8) Investments may be held as physical securities in either bearer form, or registered in the name of the Fund or the nominee of the custodian. Non-physical securities may be held on book entry at a Depository Institution selected by the custodian, or one of the 12 U.S. Federal Reserve Banks.

(9) Due bills may be accepted from brokers against

payment for securities purchased, pending delivery within a reasonable period of time of certificates representing such investments.”

Section 2. Section 1006 of title 53 of the Code of the Federated States of Micronesia (Annotated), as amended, is hereby further amended to read as follows:

“Section 1006. Authorized investments.

(1) General Investment Authority.

(a) Subject to the investment guidelines established pursuant to section 1002(2) of this chapter, the Board is authorized to invest Fund reserves in any lawful investment vehicle or strategy that the Board determines, in its fiduciary capacity, will further the security and growth of the Social Security Retirement Fund and serve the long-term interests of System participants and beneficiaries.

(b) The Board’s investment decisions shall be guided by the following fiduciary standards:

(i) The duty to act solely in the interest of the Fund and System participants and beneficiaries;

(ii) The duty to diversify investments to minimize risk of large losses, unless under the particular circumstances it is clearly prudent not to diversify;

(iii) The duty to invest and manage Fund assets as a prudent investor would, by considering the purposes of the Social Security System, the Fund's liquidity needs, and other relevant circumstances;

(iv) The duty to incur only investment costs that are appropriate and reasonable in relation to the Fund assets and investment objectives; and

(v) The duty to use reasonable care, skill, and caution in making investment decisions.

(2) Investment Categories.

Without limiting the generality of subsection (1), the Board may authorize investments in:

(a) Government obligations of the United States, the Federated States of Micronesia, or any state, territory, or political subdivision thereof, including but not limited to bonds, bills, notes, and other debt instruments;

(b) Corporate debt obligations and mortgage-backed securities, including investment-grade and high-yield bonds, commercial paper, asset-backed securities, and structured products;

(c) Equity securities, including common and preferred stocks of domestic and foreign corporations, whether traded on public exchanges or in private markets;

(d) Real estate and real estate investment vehicles, including direct ownership, real estate investment trusts (REITs), and real estate funds;

(e) Commodities and commodity-related investments, including precious metals, energy, and agricultural products;

(f) Alternative investment strategies, including but not limited to hedge funds, private equity, infrastructure investments, and absolute return strategies;

(g) Foreign securities and currency-denominated investments, provided that currency exposure is appropriately managed;

(h) Derivative instruments for hedging, income generation, or efficient portfolio management purposes, including options, futures, swaps, and other financial contracts; and

(i) Insurance company separate accounts, annuity contracts, and guaranteed investment contracts.

(3) Investment Guidelines and Risk Management.

(a) The Board shall establish investment guidelines that address:

(i) Strategic asset allocation targets and ranges;

(ii) Risk management and diversification requirements;

(iii) Liquidity management to meet System benefit payment obligations;

(iv) Performance benchmarks and evaluation criteria;

(v) Permitted and prohibited investment practices; and

(vi) Procedures for investment manager selection, monitoring, and termination.

(b) The Board may establish concentration limits, credit quality requirements, and other prudential restrictions as it deems appropriate to protect the Fund while achieving investment objectives.

(c) The Board shall review and update its investment guidelines not less than annually, taking into account changes in capital markets, the System's financial condition, and actuarial projections.

(4) Delegation and Implementation.

(a) The Board may delegate implementation of its investment program to investment advisors/managers, investment consultants, and other service providers, subject to appropriate oversight and monitoring.

(b) All investment service providers shall comply with the Board's investment guidelines and shall act as fiduciaries with respect to the Fund.

(c) The Board retains ultimate responsibility for all investment decisions and may modify or terminate any delegation at any time.

[~~Investments may be made in:~~

~~(1) Government obligations. Obligations issued or~~

~~guaranteed as to principal and interest by the National Government and/or the State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.~~

~~(2) Corporate obligations and mortgage backed securities. Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage backed securities, provided that:~~

~~(a) The obligation is of an agency of the United States Government, or~~

~~(b) The obligation is of an agency of the Federated States of Micronesia Government, or~~

~~(c) The obligation is investment grade rated by one of two nationally recognized rating agencies; and~~

~~(d) No investment under this heading exceeds ten percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.~~

~~(e) Preferred and common stocks of any corporation created or existing under the laws of the Federated States~~

~~of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof, may be purchased provided that:~~

~~(i) The purchase of such shares shall be considered reasonable and prudent by the investment advisor at the time of purchase;~~

~~(ii) No more than five percent of the market value of the Fund shall be invested in the stock of any one corporation; and~~

~~(iv) Not more than 25 percent of the market value of the Fund shall be invested in any one industry group.~~

~~(v) Such shares are readily marketable and actively traded on a recognized national or regional stock exchange, physical or electronic.~~

~~(4) Insurance company obligations. Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States, provided that the total market value of these investments at no time shall exceed ten percent of the total market value of all investment of the Fund.~~]

Section 3. 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: 9/26/25 Introduced by: /s/ Julio M. Marar

Julio M. Marar
(by request)