A BILL FOR AN ACT

To further amend title 30 of the Code of the Federated States of Micronesia, as amended, by adding a new chapter 4 to establish Federated States of Micronesia Venture Funds, and for other purposes

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

Section 1. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new Chapter 4 to title 30 entitled “Federated States of Micronesia Venture Funds”.

Section 2. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 401 of title 30 to read as follows:

“Section 401. Short title. This chapter may be cited as the ‘Federated States of Micronesia Venture Funds Act of 2007’.”

Section 3. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 402 of title 30 to read as follows:

“Section 402. Purpose. The purpose of this act is to encourage the establishment of Venture Funds in the Federated States of Micronesia, hereinafter referred to as ‘FSM’, and to provide an incentive for large foreign companies to register Major Corporations in the FSM. The Congress finds it desirable and necessary to promote the continued expansion of the tax base of the nation.”
The Congress believes that by agreeing to invest a portion of large corporate income tax payments by Major Corporations in Venture Funds, to be managed by parents or affiliates of such Major Corporations, would attract large foreign-owned enterprises to more seriously consider registering Major Corporations in the FSM and in directing larger amounts of profitable business through such Major Corporations. By requiring that a portion of such Venture Funds be invested in new companies and industries registered in the FSM, the Congress is encouraging the development of ‘knowledge industries’ that tap into humankind’s creative genius in developing new forms of communications, materials, energy, and healing. Such new FSM corporations with intellectual property could continue to generate income over the coming years and decades. The government will be able to then tax these incomes, thus expanding the tax base that is needed by the government to provide the services that the citizens and residents of the FSM demand. It is recognized that the nation currently does not have the resources to make investments in these new industries and that a private-public partnership is needed to finance and grow these industries. Therefore, it is in the best interests of the FSM and its people that incentives are provided for Major Corporations to
establish professionally managed funds that will consider new business opportunities and make wise investments.”

Section 4. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 403 of title 30 to read as follows:

"Section 403. Creation.

(1) Any Major Corporation that pays corporate income tax to the FSM exceeding $50,000,000 in any one calendar year may require that an amount equivalent up to 30% of the amount of income taxes it paid will be invested by the FSM into a FSM Venture Fund, and the Major Corporation may also select the Fund Manager for this Fund.

(2) Any Major Corporation that pays corporate income tax to the FSM exceeding $80,000,000 in any one calendar year may require that an amount equivalent up to 48% of the amount of income taxes it paid will be invested by the FSM into a FSM Venture Fund, and that the Major Corporation may also select the Fund Manager for this Fund.

(3) Any Major Corporation that pays corporate income tax to the FSM exceeding $100,000,000 in any one calendar year may require that an amount equivalent up to 57% of the amount of income taxes it paid will be
invested by the FSM into a FSM Venture Fund, and that the Major Corporation may also select the Fund Manager for this Fund.

(4) These FSM Venture Funds, hereinafter each referred to as a ‘Fund’, will invest in new industries that may include software development, development of new drugs, medicines, and medical devices and procedures, entertainment, Internet content and distribution, telecommunication devices and access, high growth technology businesses benefiting from the rapid adoption and deployment of broadband and mobile technologies, development of new and improved materials, new forms of energy and other types of investments that that Fund Manager may deem worthy.”

Section 5. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 404 of title 30 to read as follows:

“Section 404. Letter of intent. Each Major Corporation that intends to establish a Fund must deliver a letter to the President of the Federated States of Micronesia Development Bank, between 60 days and 90 days after the delivery of its payment of corporate income tax to the FSM, signed by a director of the Major Corporation, stating that it intends to establish a Fund and specifying the amount of the Fund, specifying the amount
it requires the FSM Government to invest in that Fund, and selecting the Fund Manager of the Fund. The letter will also describe the guarantor of the Fund and give evidence that the guarantor meets the requirements listed in Section 409 below. Attached to this letter must be an Investment Statement that describes the qualifications, capabilities, and experience of the Fund Manager, the general strategy of the Fund along with the projected allocation of the investments by industry, stage of development, and country.”

Section 6. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 405 of title 30 to read as follows:

“Section 405. Public notice. Within 30 days of the date of the letter described in Section 404, the President of the Federated States of Micronesia Development Bank will publish in a newspaper of general circulation within the FSM, a notice regarding the establishment of a Fund. The notice will describe how to obtain an Investment Statement.”

Section 7. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 406 of title 30 to read as follows:

“Section 406. Deadline for depositing funds. Each fund will be established by the Secretary of Finance and
Administration no later than 60 days after the date of
publication of the notice described in Section 405, and
all investors must have deposited their monies into the
Fund no later than the end of the 60th day after
publication. The President of the Federated States of
Micronesia Development Bank will ensure that the
government and all other investors have their funds
deposited into the Fund by this date. The Secretary of
Finance and Administration is authorized and required to
deposit into the Fund such tax revenue as may be
required pursuant to Sections 403 and 404 of this
Chapter.”

Section 8. The Code of the Federated States of Micronesia as
amended, is hereby further amended by enacting a new section 407
of title 30 to read as follows:

“Section 407. Duration of funds. Each Fund will have a
life of 10 years, at which time the original capital
amount of the funds will be returned to the investors,
along with 3% of the value of the Fund which is then in
excess of the original capital amount, after all
interest payments are made to investors. Furthermore,
interest at the rate of 3% per annum will also be paid
to the investors within 30 days of the end of each
fiscal year.”

Section 9. The Code of the Federated States of Micronesia,
as amended, is hereby further amended by enacting a new section 408 of title 30 to read as follows:

"Section 408. Investment in Venture Funds by Federated States of Micronesia citizens and corporations. Citizens and corporations of the Federated States of Micronesia may invest in a Fund. The minimum investment shall be $100,000."

Section 10. The Code of the Federated States of Micronesia as amended, is hereby further amended by enacting a new section 409 of title 30 to read as follows:

"Section 409. Guarantee of repayment of original capital amounts. The fund manager, or its parent organization, or an unrelated party (the "Guarantor"), must at the outset guarantee the repayment of the original capital amounts invested in a Fund, at the end of the life of the Fund. The Guarantor must be rated at least investment grade rated by Moody’s or Standard and Poors or Fitch or a national rating organization acceptable to the President of the Federated States of Micronesia Development Bank, or it must have a net worth of least ten times the original capital of the Fund. The President of the Federated States of Micronesia Development Bank will ensure that the Guarantor meets the criteria set out in this section."

Section 11. The Code of the Federated States of Micronesia,
as amended, is hereby further amended by enacting a new section 420 of title 30 to read as follows:

"Section 420. Guarantee of payment of interest. The Guarantor must also guarantee the payment of interest to investors at the end of each fiscal year during the life of the Fund, at the rate of 3% per annum."

Section 12. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 421 of title 30 to read as follows:

"Section 421. Required investment in corporations registered in the Federated States of Micronesia. By the end of the fifth year and at the end of the tenth year of the Fund, at least 15% of the Fund must be invested in corporations registered in the FSM."

Section 13. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 422 of title 30 to read as follows:

"Section 422. Reports to investors. At the end of each year, the Fund Manager will issue a report to each investor stating new investments, sales or other dispositions of investments, the rationale for new investments and dispositions of investments, and the rationale for each current holding, and its estimate of the value of each investment and the resulting gain or loss during the current year and since the inception of
Section 14. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 423 of title 30 to read as follows:

"Section 423. Appraiser’s annual report. Ninety days before the end of the tenth year of the Fund, an independent appraiser qualified in the valuation of companies will value each of the holdings in the Fund, and the overall Fund. The appraiser will issue a report detailing the current value of each investment, and the methodology for determining each investment’s valuation. The report will be signed by the appraiser and sent directly to each investor 30 days before the end of the tenth year of the Fund. The cost of the appraiser will be an appropriate expense of the Fund. Six months before the end of the tenth year of the Fund, the Fund Manager will recommend an appraiser to the President of the Federated States of Micronesia Development Bank. If the Board of Directors of the Federated States of Micronesia Development Bank approves the recommendation, the appraiser will be hired. If it does not, the matter will be decided by the arbitration panel described in the contract between the Investors and the Fund Manager."

Section 15. The Code of the Federated States of Micronesia,
as amended, is hereby further amended by adding a new section 424 of title 30 to read as follows:

"Section 424. Advisory board. Each Fund shall have an Advisory Board that shall give advice to the Fund Manager. The Board shall consist of at least 5 people that are selected by the President of the Federated States of Micronesia, with the advice and consent of the Congress. The Board shall meet at least once a year and shall give advice to the Fund Manager. The costs of the Advisory Board shall be an appropriate expense of the Fund."

Section 16. The Code of the Federated States of Micronesia, as amended, is hereby further amended by enacting a new section 425 of chapter 4 to read as follows:

"Section 425. Expiration date. The provisions in this act, specifically Section 401, will expire on April 1, 2014, unless extended by law."

Section 17. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Dated: 9/03/07

Introduced by: /s/ Resio S. Moses (for)
Joe N. Suka
(by request)