



The President
Palikir, Pohnpei
Federated States of Micronesia

PRESIDENTIAL COMM. NO. 19-01
FSM CONGRESS

May 8, 2015

The Honorable Dohsis Halbert
Speaker
18th FSM Congress
Palikir, Pohnpei FM 96941



Dear Speaker Halbert:

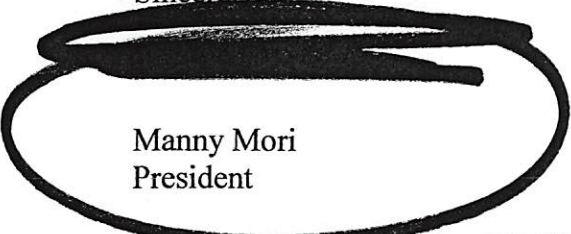
I am transmitting the following Congressional Act, which I have signed to become Public Law No. 18-124:

Congressional Act No. 18-126, entitled: "AN ACT TO AMEND SECTIONS 402, 403, 404, 406, 407, 408, 409, 420, 422, 423, 424 AND 425 OF TITLE 30 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA (ANNOTATED), AS AUTHORIZED BY PUBLIC LAW NO. 18-96, BY INCREASING THE PERCENTAGE OF CORPORATE INCOME TAX ABOVE A CERTAIN LEVEL TO BE INVESTED IN A FSM VENTURE FUND, ACCELERATING REDEMPTION PAYMENTS WHILE ELIMINATING INTEREST PAYMENTS, PROVIDING FOR A FUND MANAGEMENT FEE, ALLOWING SUBSEQUENT CONTRIBUTIONS TO THE VENTURE FUND FOR AN EXTENDED THREE YEAR PERIOD, AND FOR OTHER PURPOSES."

I am pleased that Congress is taking action on this important matter, which is designed to bring additional revenue to this Nation. The fiscal challenges we are facing as a result of the impending expiration of the financial assistance under the Amended Compact demands our mutual diligence in searching for any potential alternative revenue source. For this purpose, the Venture Funds in my view constitutes a potential revenue source that the FSM urgently needs.

Once again, I thank the 18th Congress for taking immediate action on this legislation.

Sincerely



Manny Mori
President

xc: Acting Chief Justice, FSM Supreme Court
Secretary, Department of Justice
Director, Office of SBOC
Legislative Counsel, CFSM
Library, CFSM
PIO, FSM



CONGRESS OF THE FEDERATED STATES OF MICRONESIA

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Office of the Chief Clerk

PRESIDENTIAL COMM. NO. 19-01
FSM CONGRESS

April 21, 2015

His Excellency Manny Mori
President
Federated States of Micronesia
Palikir, Pohnpei FM 96941



Dear President Mori:

I have the honor to transmit herewith Congressional Act No. 18-126, "AN ACT TO AMEND SECTIONS 402, 403, 404, 406, 407, 408, 409, 420, 422, 423, 424 AND 425 OF TITLE 30 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA (ANNOTATED), AS AUTHORIZED BY PUBLIC LAW NO. 18-96, BY INCREASING THE PERCENTAGE OF CORPORATE INCOME TAX ABOVE A CERTAIN LEVEL TO BE INVESTED IN A FSM VENTURE FUND, ACCELERATING REDEMPTION PAYMENTS WHILE ELIMINATING INTEREST PAYMENTS, PROVIDING FOR A FUND MANAGEMENT FEE, ALLOWING SUBSEQUENT CONTRIBUTIONS TO THE VENTURE FUND FOR AN EXTENDED THREE YEAR PERIOD, AND FOR OTHER PURPOSES.", which was passed by the Eighteenth Congress of the Federated States of Micronesia, Seventh Special Session, 2015, by a two-thirds vote of all the State delegations as required and as duly certified.

Sincerely yours,

Liwiana Ramon Ioanis
Chief Clerk, Congress of the
Federated States of Micronesia

Enclosures

PUBLIC LAW No. 18-124



EIGHTEENTH CONGRESS OF THE
FEDERATED STATES OF MICRONESIA
SEVENTH SPECIAL SESSION
APRIL 13 - 17, 2015

PRESIDENTIAL COMM. NO. 19-01
FSM CONGRESS

An Act

TO AMEND SECTIONS 402, 403, 404, 406, 407, 408, 409, 420, 422, 423, 424 AND 425 OF TITLE 30 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA (ANNOTATED), AS AUTHORIZED BY PUBLIC LAW NO. 18-96, BY INCREASING THE PERCENTAGE OF CORPORATE INCOME TAX ABOVE A CERTAIN LEVEL TO BE INVESTED IN A FSM VENTURE FUND, ACCELERATING REDEMPTION PAYMENTS WHILE ELIMINATING INTEREST PAYMENTS, PROVIDING FOR A FUND MANAGEMENT FEE, ALLOWING SUBSEQUENT CONTRIBUTIONS TO THE VENTURE FUND FOR AN EXTENDED THREE YEAR PERIOD, AND FOR OTHER PURPOSES.

INTRODUCED BY SENATOR: DAVID W. PANUELO

DATE: APRIL 14, 2015

REFERRED TO: COMMITTEE ON RESOURCES AND DEVELOPMENT

S.C.R. NO. 18-287 – APRIL 15, 2015

FIRST READING: APRIL 15, 2015

SECOND READING: APRIL 16, 2015

A handwritten signature in blue ink, appearing to read "Liwiana Ramon Ioanis", is written over a horizontal line.

Liwiana Ramon Ioanis
Chief Clerk, FSM Congress



CONGRESS OF THE
FEDERATED STATES OF MICRONESIA


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PRESIDENTIAL COMM. NO. A-01
FSM CONGRESS

ACT NO. 18-126

(CONGRESSIONAL BILL NO. 18-274, C.D.1, C.D.2)

We hereby certify that on April 16 the foregoing act passed
Second and Final Reading of the Eighteenth Congress of the
Federated States of Micronesia, Seventh Special Session,
2015, by a two-thirds vote of all the State delegations as
required under article IX, section 20, of the Constitution
of the Federated States of Micronesia.


Dohsis Halbert
Speaker
Congress of the
Federated States of Micronesia


Liwiana Ramon Ioanis
Chief Clerk
Congress of the
Federated States of Micronesia

EIGHTEENTH CONGRESS OF THE FEDERATED STATES OF MICRONESIA

SEVENTH SPECIAL SESSION, 2015

CONGRESSIONAL BILL NO. 18-274, C.D.1,
C.D.2

PUBLIC LAW No. 18-124

AN ACT

To amend sections 402, 403, 404, 406, 407, 408, 409, 420, 422, 423, 424 and 425 of title 30 of the Code of the Federated States of Micronesia (Annotated), as authorized by Public Law No. 18-96, by increasing the percentage of corporate income tax above a certain level to be invested in a FSM venture fund, accelerating redemption payments while eliminating interest payments, providing for a fund management fee, allowing subsequent contributions to the venture fund for an extended three year period, and for other purposes.

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

1 Section 1. Section 402 of title 30 of the Code of the
2 Federated States of Micronesia (Annotated), as authorized by
3 Public Law No. 18-96, is hereby amended to read as follows:

4 "Section 402. Purpose. The purpose of this act is to
5 encourage the establishment of Venture Funds in the
6 Federated States of Micronesia, hereinafter referred to
7 as 'FSM', and to provide an incentive for large foreign-
8 owned companies to register Major Corporations in the
9 FSM. The Congress finds it desirable and necessary to
10 promote the continued expansion of the tax base of the
11 nation. The Congress believes that agreeing to invest a
12 portion of large corporate income tax payments by Major
13 Corporations in Venture Funds, to be managed by parents
14 or affiliates of such Major Corporations, would attract
15 large foreign-owned enterprises to more seriously
16 consider registering Major Corporations in the FSM and

PUBLIC LAW No. 18-124

1 directing larger amounts of profitable business through
2 such Major Corporations. Such new FSM corporations with
3 intellectual property could continue to generate income
4 over the coming years and decades. The government will
5 be able to then tax these incomes, thus expanding the
6 tax base that is needed by the government to provide the
7 services that the citizens and residents of the FSM
8 demand. It is recognized that the nation currently does
9 not have the resources to make investments in these new
10 industries and that a private-public partnership is
11 needed to finance and grow these industries. Therefore,
12 it is in the best interests of the FSM and its people
13 that incentives are provided for Major Corporations to
14 establish professionally managed funds that will
15 consider new business opportunities and make wise
16 investments."

17 Section 2. Section 403 of title 30 of the Code of the
18 Federated States of Micronesia (Annotated), as authorized by
19 Public Law No. 18-96, is hereby amended to read as follows:

20 "Section 403. Creation.

21 (1) Any Major Corporation that pays corporate income
22 tax to the FSM exceeding \$100,000,000 but not exceeding
23 \$500,000,000 in any one calendar year may require that
24 an amount equivalent to up to fifty percent (50%) of the
25 amount of income taxes it paid will be invested by the

PUBLIC LAW No. 18-124

1 FSM into a FSM Venture Fund, and that the Major
2 Corporation may also select the Fund Manager for this
3 Fund.

4 (2) Any Major Corporation that pays corporate income
5 tax to the FSM exceeding \$500,000,000 in any one
6 calendar year may require that an amount equivalent to
7 up to 50% of \$500,000,000 and up to 100% of the amount
8 in excess of \$500,000,000 of income taxes it paid will
9 be invested by the FSM into a FSM Venture Fund, and that
10 the Major Corporation may also select the Fund Manager
11 for this Fund.

12 (3) If a Major Corporation has paid corporate income
13 tax to the FSM in any one calendar year so that a Fund
14 has consequently been established pursuant to paragraph
15 (1) or (2) above, and such Major Corporation thereafter
16 pays corporate income tax exceeding \$100,000,000 to the
17 FSM in any subsequent calendar year during the term of
18 the Fund, then the Major Corporation may require that an
19 amount equivalent to up to fifty percent (50%) of the
20 amount of income tax it paid in such subsequent calendar
21 year be invested by the FSM into the existing Fund,
22 until the Major Corporation has paid an aggregate amount
23 of corporate income tax to the FSM equal to
24 \$500,000,000. Seventy-five percent (75%) of the
25 remaining tax payment made in the first calendar year

PUBLIC LAW No. 18-124

1 after the establishment of the Fund, exclusive of fees,
2 shall be deposited to the Trust Fund established under
3 the Trust Fund Agreement between the Government of the
4 United States and the Government of the Federated States
5 of Micronesia implementing sections 215 and 216 of the
6 Compact of Free Association, as amended. After the
7 Major Corporation has paid an aggregate amount of
8 corporate income tax to the FSM in excess of
9 \$500,000,000, then the Major Corporation may require
10 that an amount equivalent to up to one-hundred percent
11 (100%) of the amount of income tax it paid in such
12 subsequent calendar year be invested by the FSM into the
13 Fund. The number of Fund ownership interests received
14 by the Fund Investors in connection with such subsequent
15 investments will be calculated based on the net asset
16 value per Fund ownership interest in effect in the date
17 of each such subsequent investment. For the purposes,
18 the aggregate amount of corporate income tax paid by the
19 Major Corporation to the FSM will include the income
20 taxes paid in the initial calendar year in respect of
21 which the Fund was originally established and in all
22 subsequent calendar years.

23 (4) The FSM may designate any other investor that is
24 authorized to invest pursuant to section 408 (such
25 designated investor, together with the FSM, "Fund

PUBLIC LAW No. 18-124

1 Investors") to provide a portion of the amounts required
2 to be invested into the Fund by the FSM pursuant to
3 paragraph (2) or (3) above.

4 (5) For the purposes of calculating the corporate
5 income tax paid by a Major Corporation under paragraphs
6 (1), (2) or (3) above, corporate income taxes paid to
7 the FSM by any other entity that directly or indirectly
8 controls, is controlled by, or is under common control
9 with, the Major Corporation will be deemed paid by such
10 Major Corporation.

11 (6) Within 30 days of the date of the letter
12 described in section 404, (i) the Secretary of Finance
13 and Administration shall authorize the establishment of
14 each FSM Venture Fund, hereinafter referred to as a
15 'Fund', and (ii) the Fund Manager shall establish the
16 Fund in a jurisdiction selected by it.

17 (7) In order to effectuate the FSM Venture Fund under
18 this section, the investment by the FSM shall be deemed
19 appropriated from the General Fund as if set forth in an
20 appropriation act."

21 Section 3. Section 404 of title 30 of the Code of the
22 Federated States of Micronesia (Annotated), as authorized by
23 Public Law No. 18-96, is hereby amended to read as follows:

24 "Section 404. Letter of intent. Each of the Major
25 Corporation that intends to establish a Fund must

PUBLIC LAW No. 18-124

1 deliver a letter to the President of the Federated
2 States of Micronesia Development Bank, between 60 days
3 and 90 days after the delivery of its payment of
4 corporate income tax to the FSM, signed by a director of
5 the Major Corporation, (i) stating that it intends to
6 establish a Fund, (ii) specifying the amount of
7 investment, being the capital amount pursuant to section
8 403, in that Fund at the initial closing of such Fund,
9 and (iii) selecting the Fund Manager of the Fund. The
10 letter will also describe the Designated Entity for the
11 Fund, give evidence that the Designated Entity meets the
12 requirements listed in section 409 below, and describe
13 the mechanism by which the Designated Entity elects to
14 meet its obligations under section 409. Attached to
15 this letter must be an Investment Statement that
16 describes the qualifications, capabilities, and
17 experience of the Fund Manager, the general strategy of
18 the Fund along with the projected allocation of the
19 investments by industry, stage of development, and
20 country."

21 Section 4. Section 406 of title 30 of the Code of the
22 Federated States of Micronesia (Annotated), as authorized by
23 Public Law No. 18-96, is hereby amended to read as follows:

24 "Section 406. Deadline for depositing funds. All Fund
25 Investors must have deposited their monies into the Fund

~~PUBLIC LAW No. 18-124~~

1 no later than the end of the 60th day after publication
2 of the notice described in section 405. The President
3 of the Federated States of Micronesia Development Bank
4 will ensure that the government and all other investors
5 have their funds deposited into the Fund by this date.
6 The Secretary of Finance and Administration is
7 authorized and required to deposit into the Fund such
8 tax revenue as may be required pursuant to sections 403
9 and 404 of this Chapter."

10 Section 5. Section 407 of title 30 of the Code of the
11 Federated States of Micronesia (Annotated), as authorized by
12 Public Law No. 18-96, is hereby amended to read as follows:

13 "Section 407. Duration of funds. Settlement; capital
14 return; management fee. The term of each Fund will be
15 as specified by the Fund Manager, but no Fund may have a
16 term beyond September 30, 2043. For any Fund with a
17 term beyond September 30, 2033, the Secretary of Finance
18 and Administration will have the option to end such term
19 on September 30, 2033 by delivering a notice thereof to
20 the Fund Manager at least three years in advance. At
21 the end of the life of a Fund, the following amounts
22 must be paid to each investor: (1) the capital amounts
23 invested in the Fund by that investor, net of all
24 amounts of invested capital previously returned to that
25 investor; and (2) with respect to any amount remaining

~~PUBLIC LAW NO. 18-124~~

1 in the Fund after repayment of the invested capital
2 amounts under the preceding clause (1), net of
3 withholdings for taxes due upon, and costs and expenses
4 of, liquidation (such remaining amount hereinafter
5 referred to as the "Net Gain",), a pro-rata portion of
6 an amount equal to twenty percent (20%) of the first
7 \$100,000,000 of Net Gain, plus a pro-rata portion of an
8 amount equal to ten percent (10%) of any Net Gain in
9 excess of \$100,000,000. Each investor's pro-rata
10 portion of the Net Gain will be in proportion to such
11 investor's Fund ownership interests. Any remaining Net
12 Gain not paid to the investors under clause (2) above
13 will be paid to the Fund Manager. Notwithstanding the
14 preceding paragraph, in fiscal year 2023 each Fund must
15 return to the investors in aggregate an amount equal to
16 twenty percent (20%) of the net asset value of the Fund
17 as of the end of the preceding fiscal year (in addition
18 to the previous returns of invested capital to the
19 investors made pursuant to the following paragraph of
20 this section 407). Such amount will be paid to the
21 investors within 120 days of the beginning of fiscal
22 year 2023. With respect to each fiscal year during the
23 term of the Fund, an annual partial return of invested
24 capital equal to two percent (2%) of the greater of
25 (a) the net asset value of the Fund as of the end of the

~~PUBLIC LAW NO. 18-124~~

1 preceding FSM National Government fiscal year and
2 (b) the capital amounts invested in the Fund by the
3 investors will also be paid to the investors in
4 aggregate within 120 days after the beginning of the
5 fiscal year, except that (i) the initial partial return
6 of invested capital will be based on the amounts
7 deposited in the Fund by the deadline specified in
8 section 406 of this chapter; (ii) payment in respect of
9 the final fiscal year of the Fund may be made on or
10 prior to the Fund's liquidation; and (iii) Fund
11 ownership interests received by the Fund Investors
12 pursuant to section 403(3) of this chapter will instead
13 be entitled to an annual partial return of invested
14 capital so payable to the Fund Investors at the rate of
15 three percent (3%) per annum. Notwithstanding the
16 preceding sentence, if, with respect to any fiscal year
17 during the term of the Fund, any partial return of
18 invested capital payable to the investors pursuant to
19 the foregoing provisions would result in the investors
20 receiving in aggregate, including all prior partial
21 returns of invested capital paid to the investors, an
22 amount greater than if in each year the investors had
23 received two percent (2%) or three percent (3%), as
24 applicable, of the capital amounts invested in the Fund
25 by the investors, then the Fund Manager shall be

~~PUBLIC LAW NO. 18-124~~

1 entitled to pay to the investors, in respect of such
2 fiscal year, such amount so that the partial returns of
3 capital paid to the investors each year, in aggregate,
4 do not exceed two percent (2%) or three percent (3%), as
5 applicable, of the capital amounts invested in the Fund
6 by the investors. Furthermore, with respect to each
7 fiscal year during the term of the Fund, the Fund
8 Manager may require that the Fund pay an annual
9 management fee equal to up to two percent (2%) of the
10 net asset value of the Fund as of the end of the
11 preceding fiscal year to the Fund Manager within 120
12 days after the beginning of the fiscal year, except that
13 (i) the initial management fee will be based on the
14 amounts deposited in the Fund by the deadline specified
15 in section 406 of this chapter and (ii) payment of the
16 management fee owed with respect to the final fiscal
17 year of the Fund may be made on or prior to the Fund's
18 liquidation."

19 Section 6. Section 408 of title 30 of the Code of the
20 Federated States of Micronesia (Annotated), as authorized by Public
21 Law No. 18-96, is hereby amended to read as follows:

22 "Section 408. Investment in Venture Funds by Federated
23 States of Micronesia citizens and corporations. As
24 provided in this Chapter, citizens and corporations of
25 the Federated States of Micronesia may invest in a Fund

~~PUBLIC LAW No. 18-124~~

1 any time that the FSM is required to invest in such Fund
2 pursuant to section 403. The minimum investment shall
3 be \$100,000."

4 Section 7. Section 409 of title 30 of the Code of the
5 Federated States of Micronesia (Annotated), as authorized by Public
6 Law No. 18-96, is hereby amended to read as follows:

7 "Section 409. Repayment of capital amounts. If at the
8 liquidation of a Fund the amounts payable to the Fund
9 Investors, together with all amounts of invested capital
10 previously returned to the Fund Investors, would not be
11 sufficient to return to the Fund Investors in aggregate
12 an amount equal to the aggregate capital amount invested
13 in the Fund by the Fund Investors, then the Fund Manager
14 shall return to the Fund Investors such portion of the
15 aggregate management fees paid to it to remedy such
16 capital shortfall. In addition, upon establishment of a
17 Fund the Designated Entity will, at its option, either
18 guarantee the repayment to Fund Investors of the capital
19 amounts invested in a Fund by the Fund Investors at the
20 end of the life of the Fund or commit to provide
21 supplemental capital to remedy any such capital
22 shortfall. "Designated Entity" means the Fund Manager,
23 its parent organization or an unrelated party. The
24 Designated Entity must be rated at least investment
25 grade rated by Moody's or Standard and Poor's or Fitch

PUBLIC LAW No. 18-124

1 or a national rating organization acceptable to the
2 President of the Federated States of Micronesia
3 Development Bank, or it must have a net worth of least
4 ten times the original capital of the Fund. The
5 President of the Federated States of Micronesia
6 Development Bank will ensure that the Designated Entity
7 meets the criteria set out in this section."

8 Section 8. Section 420 of title 30 of the Code of the
9 Federated States of Micronesia (Annotated), as authorized by
10 Public Law No. 18-96, is hereby amended to read as follows:

11 "Section 420. Section 420. Payment of partial capital
12 returns. The provisions of section 409 will also apply
13 with respect to the payment of partial capital returns
14 to the Fund Investors each fiscal year during the life
15 of the Fund under section 407 of this Chapter."

16 Section 9. Section 422 of title 30 of the Code of the
17 Federated States of Micronesia (Annotated), as authorized by
18 Public Law No. 18-96, is hereby amended to read as follows:

19 "Section 422. Reports. Within 90 days after the end of
20 each fiscal year during the term of the Fund, the Fund
21 Manager will issue a report to the Advisory Board
22 stating new investments, sales or other dispositions of
23 investments, the rationale for new investments and
24 dispositions of investments, the rationale for each
25 current holding, the net asset value of the Fund as of

~~PUBLIC LAW NO. 18-124~~

1 the end of such fiscal year, the estimate of the value
2 of each investment as of the end of such fiscal year,
3 and the resulting gain or loss during such fiscal year
4 and since the inception of the Fund. The net asset
5 value of the Fund as of the end of each fiscal year as
6 well as the estimate of the value of each investment as
7 of the end of such fiscal year, and the resulting gain
8 or loss during such fiscal year and since the inception
9 of the Fund, must be approved by the Fund's auditor or
10 another independent appraiser."

11 Section 10. Section 423 of title 30 of the Code of the
12 Federated States of Micronesia (Annotated), as authorized by
13 Public Law No. 18-96, is hereby amended to read as follows:

14 "Section 423. Appraiser. Ninety days before the end of
15 the term of the Fund, an independent appraiser qualified
16 in the valuation of companies, appointed by the Fund
17 Manager and reasonably acceptable to the Advisory Board,
18 will value each of the holdings in the Fund, and the
19 overall Fund. The appraiser will issue a report
20 detailing the current value of each investment, and the
21 methodology for determining each investment's valuation.
22 The report will be signed by the appraiser and sent to
23 the Advisory Board 30 days before the end of the term of
24 the Fund. The cost of the appraiser will be an
25 appropriate expense of the Fund."

~~PUBLIC LAW NO. 18-124~~

1 Section 11. Section 424 of title 30 of the Code of the
2 Federated States of Micronesia (Annotated), as authorized by
3 Public Law No. 18-96, is hereby amended to read as follows:

4 "Section 424. Advisory Board. Each Fund shall have an
5 Advisory Board that shall give advice to the Fund
6 Manager. The Board shall consist of at least 5 people
7 that are selected by the President of the Federated
8 States of Micronesia, with the advice and consent of the
9 Congress; provided, that each investor that invests in
10 aggregate \$10,000,000 or more but less than \$20,000,000
11 in the Fund shall be entitled to a representative in the
12 Advisory Board, and each investor that invests in
13 aggregate \$20,000,000 or more in the Fund shall be
14 entitled to two representatives in the Advisory Board.
15 The Board shall meet at least once a year in person at
16 the headquarters of the Fund Manager and shall give
17 advice to the Fund Manager. The costs of the Advisory
18 Board shall be an appropriate expense of the Fund."

19 Section 12. Section 425 of title 30 of the Code of the
20 Federated States of Micronesia (Annotated), as authorized by
21 Public Law No. 18-96, is hereby amended to read as follows:

22 "Section 425. Expiration date. No new Fund may be
23 created pursuant to section 403 of this chapter, on or
24 after April 1, 2028, unless extended by law."
25

PUBLIC LAW No. 18-124

1

2 Section 13. This act shall become law upon approval by the
3 President of the Federated States of Micronesia or upon its
4 becoming law without such approval.

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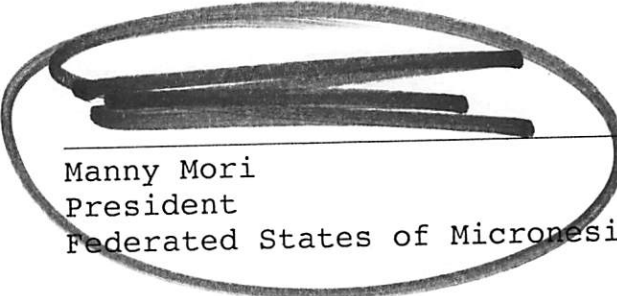
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Manny Mori, 2015


Manny Mori
President
Federated States of Micronesia