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A BILL FOR AN ACT

To establish the Federated States of Micronesia Monetary Authority, 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 is known and may be cited as "The Federated States of Micronesia Monetary Authority Act of 1983."

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 operation 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 paragraph (a) may additionally be authorized to do by the Authority;

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

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

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1 (6) "Demand liabilities of the Authority" means currency in
2 circulation issued or deemed by the Authority to have been issued by it,
3 together with demand deposits held by the Authority;

4 (7) "Dollars" means the currency of the United States of
5 America;

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

11 (9) "Credit institution" means any financial institution
12 other than a bank; and

13 (10) "Government" means the National Government of the
14 Federated States of Micronesia.

15 CHAPTER 2

16 CONSTITUTION OF THE AUTHORITY

17 Section 201. Establishment of Authority. There is hereby estab-
18 lished an authority to be known as the Monetary Authority of the
19 Federated States of Micronesia to do business in accordance with the
20 provisions of this act.

21 Section 202. Status. The Authority shall be a body corporate
22 with perpetual succession and a common seal.

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

24 (1) Enter into contracts and issue obligations;

25 (2) Sue and be sued in its own name;

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1 (3) Acquire, hold, and dispose of property, whether movable
2 or immovable, and to pledge and mortgage the same; and

3 (4) Exercise all powers specifically granted by the provisions
4 of this act to the Authority, and such incidental powers as shall be
5 necessary to carry out the powers so granted.

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

7 (1) To regulate the availability of money and its international
8 exchange;

9 (2) To promote monetary stability;

10 (3) To supervise and regulate banking business; and

11 (4) To promote credit and exchange conditions and a sound
12 financial structure conducive to the balanced growth of the economy.

13 Section 205. Offices, branches, agents, correspondents. The
14 Authority shall have its head office in Kolonia, State of Ponape, and
15 may:

16 (1) Establish branches within the Federated States of Micro-
17 nesia;

18 (2) Appoint agents and correspondents within the Federated
19 States of Micronesia and abroad; and

20 (3) Upon the unanimous vote of all the members of the Board,
21 establish offices abroad.

22 Section 206. Service of documents. The service of any document
23 upon the Authority shall be deemed to be effected by delivering the
24 same or by sending it by registered post to the managing director.

25 CHAPTER 3

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1 CAPITAL, PROFITS, AND RESERVES

2 Section 301. Capital.

3 (1) The authorized capital of the Authority shall be \$500,000
4 and may be increased by such amounts as may be proposed by the Board
5 and approved by the Government. There shall be paid-up by the Govern-
6 ment \$200,000, upon the establishment of the Authority, and such
7 further amounts as may be proposed by the Board and approved by the
8 Government. All the paid-up capital shall be subscribed and held
9 exclusively by the Government and shall not be transferable or subject
10 to encumbrance. No reduction of capital shall be effected except by
11 an amendment to this act.

12 (2) The Government, notwithstanding any other provision of
13 this act, shall cause to be transferred to the ownership of the Authority
14 nonnegotiable, noninterest bearing securities issued by the Government,
15 from time to time for such an amount as, in the judgment of the Board,
16 is necessary for the purpose of preserving the paid-up capital from any
17 impairment.

18 Section 302. Profits. The net profits of the Authority for each
19 fiscal year shall be determined after allowing for the expenses of
20 operation for that year and after providing:

21 (1) For bad and doubtful debts, depreciation in assets, and
22 contributions to staff funds and pension funds; and

23 (2) With the approval of the Government, for such other
24 purposes as the Board may deem necessary.

25 Section 303. General reserve.

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C. B. No. 3-80

1 (1) The Authority shall establish a general reserve to which
2 shall be allocated at the end of each fiscal year of the Authority an
3 amount equal to 50 percent of the net profits until the general reserve
4 amounts to two times the paid-up capital of the Authority. With the
5 approval of the Government, the amount to be transferred to the general
6 reserve may be increased to exceed that annual proportion, or the total
7 amount of the general reserve may be increased beyond two times the
8 paid-up capital of the Authority.

9 (2) After transfers to the general reserve have been made
10 under subsection (1) 50 percent of the remainder of the net profits
11 for the fiscal year shall be applied to the redemption of any securities
12 of the Government held by the Authority which have been issued under
13 section 301 (2).

14 (3) The balance of the net profits for the fiscal year
15 remaining after all deductions under subsections (1) and (2) have been
16 made shall be paid to the Government as soon as practicable after the
17 end of the fiscal year.

18 (4) No deduction authorized under subsections (1) and (2)
19 shall be required to be made if, in the judgment of the Board, the
20 assets of the Authority are, or after the deduction or payment will be,
21 less than the sum of its liabilities and paid-up capital.

22 Section 304. Revaluation reserve account.

23 (1) The gains or losses arising from any change in the
24 valuation of the Authority's assets or liabilities in, or denominated
25 in, gold, foreign currencies, or other units of account, as a result of

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1 alterations of the value of the currency of the Federated States of
2 Micronesia or of any change in the values or exchange rates of such
3 assets with respect to the currency of the Federated States of Micro-
4 nesia, shall be credited or debited to a revaluation reserve account
5 and neither the profits nor the losses arising from any such changes
6 shall be included in the computation of the annual profits and losses
7 of the Authority.

8 (2) The losses arising from any such change shall be set
9 off against any credit balance in the revaluation reserve account and,
10 notwithstanding any other provisions of this act, if such balance is
11 nonexistent or insufficient to cover such losses, the Government shall
12 issue to the Authority nonnegotiable, noninterest bearing securities
13 to the extent of the deficiency.

14 (3) Any credit balance in the revaluation reserve account
15 at the end of each fiscal year of the Authority shall be applied first,
16 on behalf of the Government, to the redemption of any securities issued
17 under subsection (2) and outstanding; and if thereafter the remaining
18 balance exceeds 5 percent of the Authority's liabilities on account of
19 currency issued, or deemed to have been issued, by it and remaining
20 outstanding the greater of:

21 (a) One fifth of that remaining balance; or

22 (b) Five percent of the said liabilities, as at the
23 end of the past preceding fiscal year of the Authority shall be paid to
24 the Government; PROVIDED that when the remaining balance does not exceed
25 5 percent of the aforesaid liabilities the entire amount of the balance

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1 shall be paid to the Government.

2 (4) No credits or debits shall be made to the revaluation
3 reserve account except in accordance with the provisions of this
4 section.

5 CHAPTER 4

6 ADMINISTRATION

7 Section 401. Board of Directors.

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

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

14 (3) The Board shall consist of five members, namely: the
15 Secretary of Finance, who shall serve by virtue of his office; the
16 managing director; and three other appointed directors.

17 (4) The managing director and the other appointed directors
18 shall be persons of recognized experience or standing in financial
19 matters and shall each be appointed by the Government for a term of
20 3 years and shall be eligible for reappointment. They shall be
21 appointed under such terms and conditions, which may not be altered to
22 their disadvantage during their tenure of office, as may be set out in
23 their respective letters of appointment. They shall not, during their
24 tenure as members of the Board, be employees or shareholders in any
25 financial or credit institution under the regulatory jurisdiction of

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1 the Authority.

2 (5) The Secretary of Finance shall be the Chairman of the
3 Board and during his absence or disability the Board shall elect its own
4 chairman.

5 Section 402. Managing director and the other appointed directors.

6 (1) The managing director shall serve as chief executive
7 officer of the Authority, to be in charge of and responsible to the
8 Board for the implementation of the policy and the day-to-day management
9 of the Authority.

10 (2) The managing director shall have the power to act,
11 contract, and sign instruments and documents, on behalf of the Authority.
12 He may, pursuant to resolution of an to the extent deemed appropriate
13 by the Board, delegate such power to other officers.

14 (3) The managing director, while holding office, shall not,
15 without the prior approval of the Government, engage in any business,
16 profession, or employment, whether remunerated or not; PROVIDED that he
17 may:

18 (a) Act as a member of any board or commission appointed
19 by the Government;

20 (b) Become governor, alternate governor, director, or
21 member of any organization, by whatever name called, of any inter-
22 national monetary authority established under any agreement or conven-
23 tion to which the Government shall have adhered or given support or
24 approval;

25 (c) Become a member of the board of any corporation

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1 organized by the Government for the purpose of insuring deposits in
2 financial institutions.

3 (4) The managing director shall not receive any salary, or
4 contribution to or supplementation thereof, from any source other than
5 the Authority or, without the written authority of the Secretary of
6 Finance, from some other recognized source, for holding this office.

7 (5) Fees and allowances to be received by the other members
8 of the Board shall be determined by the Board.

9 (6) The managing director or any one of the other appointed
10 directors may resign his office upon giving notice in writing to the
11 Government. Such resignation will be effective upon its acceptance by
12 the Government.

13 (7) The managing director or any one of the other appointed
14 directors shall be removed from his office by the Government only upon
15 a finding by a majority of the members of the Board of:

16 (a) Permanent incapacity; or

17 (b) Serious misconduct in office substantially prejudic-
18 ing the interests of the Authority.

19 (8) If the managing director or any one of the other appointed
20 directors dies, or resigns, or otherwise vacates his office before the
21 expiration of the term for which he has been appointed, as soon as may
22 be practicable, another shall be appointed in his place for the unexpired
23 period.

24 (9) The Board shall make provision in the bylaws for the
25 cases of temporary absence or disability of the managing director or

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1 any one of the other appointed directors.

2 Section 403. Meetings of the Board.

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

9 (2) Three members of the Board shall form a quorum at any
10 meeting and, unless otherwise provided in this act, decisions shall be
11 adopted by a simple majority of the votes of the members present, and
12 in the event of an equality of votes the Chairman shall have a casting
13 vote.

14 Section 404. Power to appoint officers and employees.

15 (1) The Board may appoint and employ, at such remuneration
16 and on such terms and conditions as it may prescribe, such officers and
17 employees, agents, and correspondents as the Board may consider necessary
18 for the efficient functioning of the Authority.

19 (2) No salary, fee, wage, or other remuneration or allowance
20 paid by the Authority shall be computed by reference to the net or other
21 profits of the Authority.

22 Section 405. Conflict of interest.

23 (1) No appointed member of the Board shall act as a delegate
24 of any commercial, financial, agricultural, industrial, or other business
25 interest, or receive or accept directions therefrom in respect to duties

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1 to be performed under this act.

2 (2) The members of the Board shall fully disclose to the
3 Board any commercial, financial, agricultural, industrial, or other
4 business interests in which they or members of their families may at
5 any time directly or indirectly be interested, and shall refrain from
6 voting on any matter related thereto which becomes the subject of Board
7 action; PROVIDED that such an interest, if so disclosed, shall not
8 disqualify the interested party for the purpose of constituting a
9 quorum.

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

13 (4) Neither the members of the Board nor any officers or
14 employees of the Authority shall receive any gift or advantage for
15 themselves or for persons with whom they have family, business, or
16 financial connections if the acceptance thereof would result, or give
17 the appearance of resulting, in the diminishing of their impartial
18 devotion to their duties under this act.

19 (5) Any person who contravenes the provisions of this
20 section shall be guilty, upon conviction thereof in a court of law,
21 of an offense and liable to a fine of not more than 1 7,
22 or to imprisonment for not more than 3 months, or to both such fine and
23 imprisonment.

24 Section 406. Secrecy.

25 (1) Except for the purpose of the performance of his duties,

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1 or the exercise of his functions, or when required to do so by any
2 court, or under the provision of any law, no member of the Board,
3 officer, or employee of the Authority shall disclose to any person any
4 material information relating to the affairs of the Authority or of any
5 financial institution, or other person, firm, company, or organization
6 which he has acquired in the performance of his duties or the exercise
7 of his functions.

8 (2) Any person contravening the provisions of subsection (1)
9 of this section shall be guilty, upon conviction thereof in a court of
10 law, of an offense and liable to a fine of not more than 1 7,
11 or to imprisonment for not more than 3 months, or to both such fine and
12 imprisonment..

13 CHAPTER 5

14 CURRENCY

15 Section 501. Monetary unit. The monetary unit of the Federated
16 States of Micronesia shall be the dollar, or such other unit as is
17 prescribed, which shall be divided into 100 cents, or such other sub-
18 sidiary units as are prescribed, with such external value as may, from
19 time to time, be declared in accordance with section 502 of this act.

20 Section 502. External value.

21 (1) The Government may, by order, at any time, on the
22 recommendation of the Board, declare an external value for the dollar
23 or such other unit as is prescribed, having due regard for the obliga-
24 tions which the Federated States of Micronesia has assumed in accordance
25 with the provisions of any international monetary agreement to which it

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1 is a party or to which it has adhered.

2 (2) Notice of any change in the external value of the dollar
3 or such other unit as is prescribed and made in accordance with
4 subsection (1) shall be notified to the public.

5 Section 503. Issue of currency.

6 (1) The Authority shall have the sole right of issuing
7 currency notes and coins in the Federated States of Micronesia.

8 (2) No other person shall issue currency notes, bank notes,
9 or coins, or any documents or tokens payable to bearer on demand, having
10 the appearance of or purporting to be currency, without the prior
11 approval of the Authority. Such approval shall be deemed granted with
12 respect to any currency recognized by the Authority as possessing the
13 quality of legal tender in the Federated States of Micronesia.

14 (3) Any person contravening the provisions of subsection (2)
15 shall be guilty, upon conviction thereof in a court of law, of an
16 offense and liable to a fine of not more than L T, or to
17 imprisonment for not more than 5 years, or to both such fine and imprisonment.

18 (4) Subject to the provisions of subsection (5), currency
19 notes and coins issued or deemed by the Authority to have been issued
20 by it shall be legal tender in the Federated States of Micronesia for
21 the discharge of public and private obligations.

22 (5) A tender of payment of money, if made in currency notes
23 and coins referred to in subsection (4), shall be legal tender:

24 (a) In the case of currency notes, for the payment of
25 any amount; and

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1 (b) In the case of coins, for each denomination of
2 coins, for the payment of an amount not exceeding 20 times the face value
3 of that denomination.

4 (6) Notwithstanding subsection (5) of this section, a currency
5 note or coin issued or deemed to have been issued by the Authority shall
6 not be legal tender:

7 (a) If, in the case of a currency note, it has been
8 altered in any material way; or

9 (b) If, in the case of a coin, it has been tampered
10 with.

11 (7) A currency note shall be deemed to have been altered,
12 in a material way, if:

13 (a) It has been mutilated; or

14 (b) It has been defaced by having any name, word,
15 device, or number stamped or engraved thereon.

16 (8) A coin shall be deemed to have been tampered with if:

17 (a) It has been impaired, diminished, or lightened,
18 otherwise than by fair wear and tear; or

19 (b) It has been defaced.

20 (9) The penalties for counterfeiting and alteration of
21 currency notes and counterfeiting, mutilating, and defacement of coinage
22 shall be those established in the Criminal Code.

23 (10) The conditions under which mutilated or otherwise
24 damaged currency may be exchanged or refunded at partial or face value
25 shall be determined by regulations issued by the Authority.

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1 (11) No person shall be entitled to recover from the
2 Authority the value of any lost or stolen currency, except as may
3 be provided under the terms of a waiver expressly executed with respect
4 to the assumption by the Authority of risks incident to shipments of
5 currency.

6 (12) The Authority may arrange for the printing of currency
7 notes and the minting of coins and for all matters relating thereto,
8 and for the security and safekeeping of unissued currency and for the
9 custody and destruction, as necessary, of plates, dies, and retired
10 currency.

11 (13) Currency notes issued by the Authority shall be in such
12 denominations, and of such composition, form, and design, and authen-
13 ticated in such manner as shall be approved by the Government on the
14 recommendation of the Board.

15 (14) Coins issued by the Authority shall be of such denomi-
16 nations and of such weight, form, and design, and made of such metal
17 or metals as shall be approved by the Government on the recommendation
18 of the Board.

19 (15) The characteristics of currency notes and coins to be
20 issued by the Authority shall be published by any means it deems
21 appropriate.

22 (16) The Authority shall issue, reissue, and exchange, on
23 demand and without charge, currency which has been issued by it;
24 PROVIDED that in the event of the temporary unavailability of a
25 requested issue or denomination, the Authority may deliver currency

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1 of available issues and denominations which most nearly approximate
2 those requested.

3 Section 504. Power of Authority to withdraw currency from
4 circulation. The Authority shall have power, on giving notice by any
5 means it deems appropriate, to call in, for the purpose of withdrawing
6 from circulation, any currency issued by the Authority or deemed by the
7 Authority to have been issued by it, on payment of the face value thereof.
8 Any currency so recalled shall, in accordance with the terms of the
9 notice, cease to be legal tender; PROVIDED that the holders of such
10 currency shall be entitled, at any time within a period of not less than
11 5 years, as may be specified in the notice, to claim payment from the
12 Authority in accordance with such regulations as it may issue.

13 Section 505. Evidence of genuineness of currency notes. In any
14 proceeding in which the genuineness of any currency note or coin
15 purporting to have been issued by the Authority, or deemed by the
16 Authority under section 503 (4) to have been issued by it, shall be
17 in question, a certificate under the hand of a duly authorized officer
18 of the Authority to the effect that such currency note or coin is or
19 is not spurious shall be received in all courts of law as presumptive
20 evidence of the status of such currency note or coin.

21 CHAPTER 6

22 EXTERNAL RESERVE

23 Section 601. External reserve.

24 (1) The Authority shall maintain an external reserve consist-
25 ing of all or any of the following on such terms and conditions as the

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- 1 Board may prescribe:
- 2 (a) Gold;
- 3 (b) Foreign exchange in the form of currency or bank
- 4 balances held abroad;
- 5 (c) Any internationally recognized reserve assets,
- 6 including:
 - 7 (i) Any reserve tranche position of the Federated
 - 8 States of Micronesia in the International Monetary Fund; and
 - 9 (ii) Any holding of any special drawing rights
 - 10 by the Federated States of Micronesia in the Special Drawing Rights
 - 11 Department of the International Monetary Fund;
 - 12 (d) Bills of exchange and promissory notes denominated
 - 13 in foreign currency and payable at any place outside the Federated
 - 14 States of Micronesia;
 - 15 (e) Treasury bills issued by foreign governments
 - 16 specified, from time to time, by the Board; and
 - 17 (f) Securities issued or guaranteed by foreign govern-
 - 18 ments or international financial institutions specified, from time to
 - 19 time, by the Board.
- 20 (2) The Authority shall use its best endeavors to maintain
- 21 the external reserve at a level adequate for the international trans-
- 22 actions of the Federated States of Micronesia.
- 23 (3) If the external reserve has declined, or, in the
- 24 judgment of the Board, appears likely to decline in such a way as to
- 25 jeopardize the adequacy of such reserve in light of subsection (2),

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1 the Authority shall submit to the Government a report on the reserve
2 position and the causes which have led or may lead to such a decline,
3 together with recommendations concerning the measures that may be
4 deemed necessary to forestall or otherwise remedy the situation. The
5 Authority shall make further reports and recommendations at intervals
6 not to exceed 6 months until such time as, in its judgment, the
7 situation is rectified.

8 CHAPTER 7.

9 FOREIGN EXCHANGE OPERATIONS

10 Section 701. Depository of official external assets. The Authority
11 shall be the depository of the official external assets of the Federated
12 States of Micronesia; PROVIDED that the Authority may designate such
13 agents as it may select in which these assets may be held.

14 Section 702. Operation in gold and foreign exchange. The Authority
15 may:

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

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

20 (3) Purchase and sell treasury bills and other securities
21 issued or guaranteed by foreign governments or international institu-
22 tions;

23 (4) Open and maintain accounts abroad: and

24 (5) Open and maintain accounts and act as agent or correspon-
25 dent for foreign central banks, foreign financial institutions, foreign

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1 governments, foreign government agencies and institutions, and inter-
2 national institutions.

3 Section 703. Limitations on operations in foreign exchange. The
4 Authority shall deal in connection with the operations enumerated in
5 section 702 only with financial institutions operating in the Federated
6 States of Micronesia, the Government and its boards and agencies,
7 local government bodies, foreign central banks, foreign financial
8 institutions, foreign governments, foreign government agencies and
9 institutions, and international institutions.

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

20 CHAPTER 8

21 RELATIONS WITH FINANCIAL INSTITUTIONS

22 Section 801. Opening accounts for financial institutions. The
23 Authority may open accounts for and accept deposits from financial
24 institutions doing business in the Federated States of Micronesia under
25 such terms and conditions, including the payment of interest and the

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- 1 establishment of charges thereon, as the Board may, from time to time,
2 determine.

3 Section 802. Operations with account holders. The Authority may:

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

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

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

19 (a) Secured by:

20 (i) Instruments specified in subsections (1)
21 and (2);

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

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1 such commodities or goods; or

2 (iii) Holdings of any of such assets as the

3 Authority is permitted to buy, sell, or deal in under subsections (1),

4 (2), and (3) of section 702;

5 (b) Unsecured by such assets, on terms and conditions

6 which the Board may prescribe; PROVIDED that no advance shall be made

7 available under this paragraph for an amount in excess of 20 percent

8 of the deposit liabilities of the borrower.

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

14 Section 804. Required reserves.

15 (1) The Authority may, from time to time, prescribe by any
16 means of notification it deems appropriate and by written notice to the
17 main office in the Federated States of Micronesia of each financial
18 institution the maintenance of required reserves, including marginal
19 required reserves, against deposit and other similar liabilities which
20 may be specified for this purpose. Such reserves shall be maintained
21 by way of cash holdings with the financial institution or by way of
22 deposits in current accounts with the Authority or both in proportion
23 as the Authority may prescribe.

24 (2) The Authority may prescribe different reserve ratios for
25 different classes of deposits and other similar liabilities and may

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1 prescribe the method of their computation; PROVIDED that:

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

6 (b) The reserve ratios shall be uniform for all banks
7 and for all credit institutions, although the ratios may differ between
8 the two classes;

9 (c) Any such prescription of, or increase in, the
10 required reserve ratios shall be effective only after reasonable notice
11 thereof has been communicated to the financial institutions.

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

18 (4) The Authority may impose on any financial institution
19 which fails to maintain required reserves in the appropriate ratio
20 prescribed under this section a charge at an annual rate not in excess
21 of twice the highest rate fixed at the time by the Authority, pursuant
22 to section 805, for any of its operations on the amount of the deficiency
23 for as long as the deficiency continues. Such interest charge shall
24 be payable to the Authority on such date as may be prescribed by it
25 and may be recovered by deduction from any balance of the financial

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C. B. No. 3-80

1 institution with the Authority.

2 Section 805. Computation of, and minimum and maximum interest rates.

3 (1) The Authority may, from time to time, prescribe by any
4 means of notification it deems appropriate and by written notice to the
5 main office in the Federated States of Micronesia of each financial
6 institution:

7 (a) The method of computation and minimum and maximum
8 rates of interest payable with respect to deposits and other similar
9 liabilities;

10 (b) The permissible purposes, aggregate ceilings,
11 maximum amounts beyond which the Authority's approval is necessary,
12 maximum maturities, and maximum interest chargeable, and minimum cash,
13 margin, or security required, with respect to:

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

16 (ii) The discounting of bills and notes;

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

18 (iv) The granting of acceptances and other credit.

19 (2) The provisions of subsection (1) may be made applicable
20 by the Authority, through publication by any means it deems appropriate
21 and by written notice to every person, having as a principal object
22 the extension of credit to the public generally or to particular
23 members thereof, that, in the ordinary course of business, during any
24 calendar year extends an amount to be determined, from time to time,
25 by the Board. The Authority shall have the power to examine the accounts,

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1 books, and papers of any person that it has reason to suspect is
2 extending or has extended credit in violation of this subsection.

3 (3) Notices issued under this section shall apply uniformly
4 in the Federated States of Micronesia and shall come into effect on
5 such date specified not earlier than 30 days after the issue date;
6 PROVIDED that the Authority in its notices may differentiate, according
7 to the nature of their business, between banks, credit institutions,
8 and other creditors or classes thereof with respect to the items set out
9 in subsection (1).

10 (4) Any financial institution in violation of subsection (1)
11 may be required to pay to the Authority for each such violation a
12 penalty charge not to exceed $\frac{\$}{\text{day}}$ for every day during
13 which such violation continues.

14 (5) Any person to whom the provisions of subsection (1)
15 have been made applicable pursuant to subsection (2) shall be guilty
16 of an offense if:

17 (a) It is in violation of this section: or

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

22 (6) Any person who commits an offense under subsection (5)
23 shall be liable upon conviction thereof in a court of law to a fine of
24 not more than $\frac{\$}{\text{day}}$ for every day during which the contra-
25 vention continues.

1 Section 806. Provision of information.

2 (1) Every financial institution shall furnish to the Authority,
3 at such times and in such manner as the Authority may prescribe, such
4 information and data as the Authority may require for the proper dis-
5 charge of its functions and responsibilities; PROVIDED that in order to
6 verify compliance with directions issued under sections 803 and 804,
7 the Authority may require any person who is or has been made subject
8 thereto to open his books for inspection.

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

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

20 (a) Fails, refuses, or neglects to supply information
21 or data under subsection (1); or

22 (b) In complying with such requirements furnishes any
23 information or data which he knows to be false in any material respect,
24 shall be guilty upon conviction thereof in a court of law of an offense
25 and liable to a fine of not more than 1 7, or to imprisonment

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1 for 6 months, or to both such fine and imprisonment.

2 Section 807. Inspection of financial institutions.

3 (1) The Authority may periodically, or at its discretion,
4 cause an inspection to be made by any of its officers, or by any other
5 qualified person appointed to that effect by the Authority, of any
6 financial institution and of its books, records, documents, and accounts
7 for the purpose of ascertaining the nature of its business and the
8 condition of its affairs and of ascertaining whether such financial
9 institution is complying with the provisions of this act.

10 (2) Any person authorized under this section to inspect a
11 financial institution shall be subject to the provisions of section 406
12 and may:

13 (a) Require any director, officer, or employee of any
14 financial institution to furnish such information as he may consider
15 necessary for the purpose of the inspection; or

16 (b) Require any such director, officer, or employee to
17 produce for inspection any books, records, or other documents in his
18 possession containing or likely to contain any such information.

19 (3) Any person who:

20 (a) Fails, refuses, or neglects to comply with any
21 requirement of an authorized person made under subsection (1) or (2); or

22 (b) In complying with any such requirement, furnishes
23 any information or produces any book, record, or other document which
24 he knows to be false in any material respect, shall be guilty upon
25 conviction thereof in a court of law of an offense and liable to a fine

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1 of not more than 1, or to imprisonment for 6 months, or
2 to both such fine and imprisonment.

3 Section 808. Foreign working balances. The Authority may pre-
4 scribe the maximum amount of the working balances which financial
5 institutions may hold in foreign currencies generally or in any specified
6 currency or currencies.

7 Section 809. Establishment of clearing house. The Authority may
8 at a suitable time in conjunction with the banks organize a clearing
9 house in Kolonia in premises provided by the Authority and in such
10 other places as may be desirable.

11 CHAPTER 9

12 RELATIONS WITH THE GOVERNMENT

13 Section 901. Authority to be banker, advisor, fiscal agent, and
14 depository to the Government.

15 (1) The Authority shall be the banker, fiscal agent, and
16 advisor to the Government on monetary and financial matters and shall
17 be the depository of Government funds; PROVIDED that in such cases, for
18 such periods of time, and on such other terms and conditions as may
19 be agreed upon between the Government and the Authority:

20 (a) The Authority may act in such capacities to Govern-
21 ment institutions, agencies, and local government bodies; and

22 (b) The Government may maintain working balances with
23 and generally use the services of other financial institutions.

24 (2) The Government may request the Authority to render
25 advice and to furnish reports on matters relating to the purposes of

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1 the Authority.

2 (3) It shall be the duty of the Authority to inform and
3 advise the Government concerning any matter which, in the opinion of
4 the Authority, is likely to affect the achievement of its purposes.

5 Section 902. Depository and fiscal agent of international insti-
6 tutions. The Authority shall, upon designation by the Government,
7 serve as the depository and fiscal agent of, and the institution
8 through which dealings shall be conducted with, international financial
9 institutions of which the Federated States of Micronesia is a member.

10 Section 903. Credit to the Government, its institutions, and
11 agencies. Except in accordance with sections 802 (2), 802 (3)(a),
12 904, and 905, the Authority shall not, directly or indirectly, make
13 advances to, or acquire the notes, bills, securities, or other evidences
14 of debt from, or guaranteed by, the Government, its institutions,
15 agencies, and local government bodies; PROVIDED that this section shall
16 not operate to prevent the acquisition by the Authority of securities
17 transferred to it by the Government in accordance with section 301 or
18 304.

19 Section 904. Advances to the Government.

20 (1) The Authority may make temporary advances, subject to
21 repayment within 3 months following the end of the fiscal year in
22 which they were granted, at such rates of interest as may be agreed upon
23 between the parties:

24 (a) To the Government; and

25 (b) With the approval of the Government, to Government

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1 institutions, agencies, and local government bodies.

2 (2) Without limiting the generality of the provisions of
3 subsection (1), the Authority is expressly authorized to make advances
4 to the Government, under such terms and conditions as may be agreed
5 upon, in respect to subscriptions and other payments resulting from,
6 or incidental to, the membership of the Federated States of Micronesia
7 in any international bank or international monetary authority established
8 under governmental auspices, the participation of the Federated States
9 of Micronesia in any account thereof, and any transactions and opera-
10 tions undertaken in connection therewith.

11 Section 905. Acquisition of evidence of indebtedness issued by
12 the Government. The Authority may purchase, hold, and sell notes,
13 bills, securities, or other evidences of indebtedness issued or guar-
14 anteed by the Government bodies, which were publicly offered for sale
15 or form part of an issue which is being made to the public at the time
16 of acquisition by the Authority.

17 Section 906. Consultation on budget and credit operations. The
18 Authority shall be consulted by:

19 (a) The Government on the occasion of the preparation of the
20 Government's budget with the purpose of reaching an understanding on
21 the total amount of credit that may be expected to be extended by the
22 Authority to the Government during the Government's following fiscal
23 year through the acquisition of evidences of indebtedness under sections
24 802 (2) and 905, the acceptance of securities as collateral under
25 section 802 (3)(a) and the making of advances under section 904.

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1 (b) The Government, its institutions and agencies, and
2 local government bodies at any time that either domestic or foreign
3 credit operations are contemplated. In the event that, in the opinion
4 of the Board, such operations individually or collectively appear to
5 be of a magnitude inappropriate to prevailing economic conditions, the
6 Authority shall report to the Government, drawing attention to the
7 situation and recommending measures to remedy the situation.

8 Section 907. Report to the Government. Whenever, in the opinion
9 of the Board, the volume of credit being extended by the Authority to
10 the Government, its institutions, agencies, and local government bodies
11 by advances under section 904, the acquisition of evidences of
12 indebtedness under sections 802 (2) and 905, and the acceptance of
13 securities as collateral under section 802 (3)(a) threatens to endanger
14 the ability of the Authority to achieve its purposes as provided for
15 in this act, the Authority shall submit a report to the Government,
16 drawing attention to the situation, analyzing the causes which have
17 led thereto, and, at its discretion, recommending measures which it
18 deems necessary to forestall or otherwise remedy the situation.

19 CHAPTER 10

20 ACCOUNTS

21 Section 1001. Fiscal year. The fiscal year of the Authority shall
22 coincide with the fiscal year of the Government.

23 Section 1002. Accounts and annual statement.

24 (1) The Board shall cause to be kept proper books of account
25 and other books and records in relation thereto in which shall be

1 recorded all the financial transactions of the Authority.

2 (2) The Authority shall, as soon as may be practicable after
3 the end of every month, make up a statement of the condition of the
4 Authority at the close of business on the last business day of each
5 month and publish the same by any means it deems appropriate.

6 (3) The Authority shall, within 3 months after the end of
7 each calendar year, submit to the Government a copy of its annual
8 accounts certified by the auditor, together with a report on its opera-
9 tions during the year, and shall publish said accounts and report once
10 they have been approved by the Government.

11 Section 1003. Audit. The accounts of the Authority shall be
12 audited at least once every fiscal year by a suitably qualified auditor
13 appointed by the Board.

14 CHAPTER 11

15 MISCELLANEOUS PROVISIONS

16 Section 1101. Prohibited transactions. The Authority shall not:

17 (1) Engage in trade or participate directly or indirectly
18 in the ownership of any financial, agricultural, commercial, industrial,
19 or other enterprise, except to the extent provided in subsection (4)(a);

20 (2) Purchase or retain ownership of real estate except
21 insofar as is necessary for the conduct of its business and for the
22 housing of its officers and employees;

23 (3) Make unsecured advances, whether by loans or overdrafts,
24 except as provided in section 802 (3)(b) and section 904;

25 (4) Make advances, whether by loans or overdrafts, secured

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1 otherwise than as laid down in this act; PROVIDED that:

2 (a) Should any debts due to the Authority be in jeopardy,
3 the Authority may secure such debts in real or other property, and, if
4 the security is enforced, acquire and hold such property, but with a
5 view to the sale thereof as soon as is practicable;

6 (b) Subject to terms and conditions to be prescribed
7 by the Board, the Authority may grant advances to any of its officers
8 or employees:

9 (i) For the purchase, construction, or repair of one
10 residential house for his personal use against the security of the
11 said house; and

12 (ii) For other purposes in an amount not to exceed,
13 during the time they are outstanding, the annual remuneration received
14 by the borrower from the Authority;

15 (5) Accept shares as collateral security, except as provided
16 in subsection (4)(a).

17 Section 1102. Exemption from taxes. The Authority shall be exempt
18 from all Government and local taxes, stamp duties, fees, excise, and
19 all other taxes on its profits, operations, capital, property, and
20 documents.

21 CHAPTER 12

22 TRANSITIONAL ARRANGEMENTS

23 Section 1201. Transitional arrangements.

24 (1) The provisions of this section shall remain in force
25 until such date as the Government may determine, hereinafter referred

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1 to as the "transitional period," whereupon they shall be deemed to have
2 been repealed.

3 (2) During the transitional period the Authority shall have
4 power, on giving notice by any means it deems appropriate, to call in,
5 for the purpose of withdrawing from circulation, any currency circulating
6 in the Federated States of Micronesia on payment of the equivalent
7 value in .

8 (3) During the transitional period and as long as the
9 external value of the and the United States dollar
10 are equivalent they shall be interchangeable in the Federated States
11 of Micronesia at par.

12 CHAPTER 13

13 EFFECTIVE DATE

14 Section 1301. Effective date. This act shall become law upon
15 approval by the President of the Federated States of Micronesia or
16 upon its becoming law without such approval.

17
18 Date: 6/1/83

Introduced by:

Elias A. Thomas
Elias Thomas