A BILL FOR AN ACT


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

CHAPTER 1

GENERAL PROVISIONS

Section 101. Short title. This act shall be known as "The Federated States of Micronesia General Banking Act of 1985."

Section 102. Definitions. As used in this act, unless it is otherwise provided or the context requires a different construction, application, or meaning:

(1) "Authority" means the Monetary Authority of the Federated States of Micronesia as established under "The Federated States of Micronesia Monetary Authority Act of 1985";

(2) "Bank" means any financial institution the operations of which include the acceptance of deposits subject to check or other means of third party transfer. "Bank" includes a savings and loan association but does not include a credit union;

(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 sales 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) "Chairman" means the Chairman of the Board of the Authority;

(6) "Deposits" refers to deposits of money in a bank from the public or members thereof, withdrawable by means of the issuance of checks (demand deposits), or withdrawable or payable upon demand or after a fixed period or after notice (savings and time deposits);

(7) "Domestic bank" means a bank organized under the provisions of chapter 2 of this act;

(8) "Foreign bank" means a corporation or other financial institution organized for the purpose of engaging in the banking business under the laws of the United States or of a territory or state of the United States, or of a foreign country, operating a bank in its home territory, state, or country;

(9) "General Manager" means the General Manager of the Authority;

(10) "Paid-in capital, surplus, and undivided profits" mean, in the case of a foreign bank, the aggregate paid-in capital, surplus, and undistributed profits of such bank and not merely that allocated to, located in, or arising out of its operations in the Federated States of Micronesia;

(11) "Person" includes individual, corporation,
1 partnership, and any other business entity;
2 (12) "Public Auditor" means the Public Auditor appointed
3 by the President of the Federated States of Micronesia with the
4 advice and consent of the Congress pursuant to the Constitution;
5 (13) "Registrar of Corporations" means the Registrar of
6 Corporations of the National Government of the Federated States of
7 Micronesia; and
8 (14) "Related person" with respect to any person means
9 his spouse, child, parents, brothers, or sisters or any
10 partnership, corporation, or firm in which he owns more than a
11 10 percent interest.
12 Section 103. Application of act. This act shall apply to and
13 govern all banks, domestic or foreign, operating a branch or office
14 in the Federated States of Micronesia, and any bank now existing
15 and operating a branch or office in the Federated States of
16 Micronesia shall hereafter be operated in accordance with the
17 provisions of this act, and shall be required to obtain a license
18 pursuant to chapter 4 of this act on or before the 31st day of
19 December following the effective date of this act.
20 Section 104. Requirements for banking business.
21 (1) No person shall engage in the business of accepting
22 deposits in the Federated States of Micronesia or shall use the term
23 "bank," "banking," "savings and loan association," or any form
24 thereof in the conduct of its business unless it has been granted
25 a license pursuant to the provisions of this act and such license
has not expired and has not been cancelled.

(2) Any person holding such a license shall engage in
no business in the Federated States of Micronesia other than the
banking business and shall engage in such business only at the
locations authorized by the Authority.

Section 105. Application to existing charters, articles of
incorporation, or bylaws.

(1) Domestic and foreign banks shall be subject to
the applicable provisions of their existing charters, articles of
incorporation, or bylaws only to the extent that such are compatible
and do not conflict with the provisions of this act.

(2) In the event of any conflict or incompatibility
between this act and the provisions of said charter, articles of
incorporation, or bylaws with respect to any domestic or foreign
bank, the provisions of this act shall prevail.

CHAPTER 2

DOMESTIC BANKS

Section 201. Organization; Permit required; Application.

(1) Any five or more persons of sufficient legal
capacity may organize a domestic bank, but for such purpose they
shall first apply in writing for a permit from the Authority.

(2) Domestic banks shall be organized in the form of
stock corporations. No domestic bank shall issue no-par value
stock. For the purpose primarily of determining the permanency
of equity, the types of stock a bank may issue, including the terms
thereof and the rights appurtenant thereto, shall be subject to such
rules and regulations as the Authority may prescribe, the provisions
of any law to the contrary notwithstanding.

(3) The application shall set forth and prove the need
of the services of a banking institution in the locality wherein the
bank is sought to be established, and that the services rendered by
other banking institutions do not answer the needs of the locality.

Section 202. Application for permit; Authority's
investigation. It shall be the duty of the General Manager,
immediately after the Authority receives an application for a
permit, to make whatever investigations and hold such hearings as
he deems may be necessary as to:

(1) The banking and commercial ability and experience of
the applicants;

(2) Whether such ability and experience are sufficient
to warrant the efficient functioning and operation of the bank;

(3) Whether local need justifies the application;

(4) The character and repute, as well as the banking
and commercial experience of the prospective directors or officers
who are to conduct the business of said bank;

(5) Whether the bank shall be of benefit to the general
public; and

(6) The capital which the bank has available for its
operations.

Section 203. Application for permit; Issuance by Authority.
1 The Authority may issue the permit applied for if, in its judgment,  
2 the results of the investigations are satisfactory. Any permit may  
3 be granted subject to such conditions as the Authority, in its  
4 discretion, deems necessary to protect the interests of the people  
5 of the Federated States of Micronesia.  
6 Section 204. Articles of incorporation; Requisites. The  
7 articles of incorporation must be subscribed by each of the  
8 incorporators and duly sworn to before a notary public. They  
9 shall specifically state:  
10 (1) The name by which such bank is to be known;  
11 (2) The State where its main office is to be  
12 established, which shall be its legal domicile;  
13 (3) The amount of the authorized capital stock, the  
14 number of shares into which the same is divided, and the par value  
15 of each share;  
16 (4) The term of duration of the bank;  
17 (5) The transactions to which the capital of the bank  
18 is to be preferably devoted;  
19 (6) The time and manner of calling and holding regular  
20 meetings of stockholders, and the reasons and circumstances for, and  
21 manner of, calling and holding special meetings;  
22 (7) The manner of constituting a quorum at the regular  
23 and special meetings of the stockholders;  
24 (8) The names and places of residence of the  
25 incorporators and the number of shares subscribed by each;
1 (9) The number of directors of the bank, which shall
2 not be less than five, and not less than two-thirds of the total
3 number of whom shall be citizens of the Federated States of
4 Micronesia and shall have resided in the Federated States of
5 Micronesia for at least 1 year prior to the date of the
6 application; the manner of their election, their terms of office,
7 and the number necessary to constitute a quorum; and
8 (10) Any other articles which the incorporators may deem
9 it advisable to insert for the regulation of the business and the
10 conduct of the affairs of the bank; PROVIDED that such articles
11 shall not be in conflict with this act, or with any other laws of
12 the Federated States of Micronesia.
13 Section 205. Certificate of incorporation; Beginning of
14 corporate existence.
15 (1) Upon subscribing and swearing to the articles of
16 incorporation, as provided in section 204 of this chapter, and upon
17 submitting two copies of the same to the Registrar of Corporations
18 together with the permit granted by the Authority authorizing the
19 organization of the bank, and upon payment of the proper filing
20 fee, and upon the issuance by the Registrar of Corporations, under
21 his seal, of a certificate stating that the articles containing the
22 statements required by section 204 of this chapter have been filed
23 in his office, the existence of the bank named in the articles of
24 incorporation shall begin.
25 (2) From and after the date of such filing, the bank
shall constitute a body corporate under the name set forth in the articles. Before such bank may commence business it shall comply with the other requirements of this act and all other applicable provisions of law.

Section 206. Issuance of certificate; Transmittal to General Manager. Upon the issuance by the Registrar of Corporations of a certificate of incorporation, as provided in section 205 of this act, the Registrar of Corporations shall so notify the General Manager of the Authority and at the same time shall transmit to the General Manager a duplicate copy of the articles of incorporation.

Section 207. Examination for compliance.

(1) When the duplicate copy is received by the General Manager, he shall notify the corporation, and the corporation shall then file with the General Manager a statement of all the facts necessary to enable him to determine whether the bank has in fact complied with all the requirements of law and is lawfully entitled to commence business, such statement to be sworn to by a majority of the directors and by the president or the manager of the bank.

(2) Upon receipt of such statement by the General Manager of the Authority, he shall examine the condition of the corporation and ascertain specifically the amount of its capital paid in, the names and places of residence of its stockholders, directors, and officers; the amount of the capital stock which each owns in good faith; and, generally, whether such corporation has complied with all the provisions of law required to entitle it to a
license to engage in the business of banking.

Section 208. Issuance of bank license.

(1) If, upon careful examination of the facts so reported, or of any other relevant facts which may come to his knowledge, the General Manager of the Authority is satisfied that such bank has complied with all the applicable provisions of this act and other laws required to be complied with before a bank shall be authorized to commence the business of banking, he shall issue an initial license to engage in the banking business, valid until it must be renewed according to section 401 of this act.

(2) The General Manager of the Authority may withhold from a bank the license authorizing it to commence business whenever he is satisfied that the shareholders have organized the bank for any other than the legitimate objects determined by this act.

(3) The expenses incurred by the General Manager in connection with such investigations shall be paid by the corporation in conformity with the regulations the Authority may promulgate for that purpose.

Section 209. Amount and ownership of capital stock. No domestic bank shall be organized and established in the Federated States of Micronesia with a capital stock less than the amount prescribed by the Authority, which shall, in no case, be less than $500,000 and not less than 50 percent of which shall be paid in cash before the bank shall be authorized to commence business. At least two-thirds of the capital stock shall be owned and held by persons.
who are citizens of the Federated States of Micronesia and who shall
have resided in the Federated States of Micronesia for at least 1
year prior to the application.

Section 210. Amendment of articles of incorporation.

(1) Every bank organized under this chapter may amend
its articles of incorporation with the approval of the Authority
for any lawful purposes.

(2) No amendment may contain a provision which it would
not have been lawful and proper to insert in the original articles
of incorporation.

(3) No change shall be made in the articles of
incorporation by which the rights or security of the existing
depositors or creditors of the bank shall be impaired.

CHAPTER 3

FOREIGN BANKS

Section 301. Establishment in the Federated States of
Micronesia; Requirements.

(1) Upon completion with the provisions of this chapter,
any foreign bank having a paid-in capital, surplus, and undivided
profits of not less than $20 million (except $2 million for any bank
which is a member of the Federal Deposit Insurance Corporation of
the United States or the Federal Savings and Loan Insurance
Corporation of the United States) may establish offices or branches
in the Federated States of Micronesia; PROVIDED, however, that such
foreign bank may be required by the Authority to comply with either
of these two options:

(a) Assign capital permanently to the local branch
    with the concurrent maintenance of a "net due to" head office
    account which shall include all net amounts due to other branches
    of the bank outside the Federated States of Micronesia, in an
    amount which when added to the assigned capital shall, in no case,
    be less than the minimum capital requirement for new domestic banks
    under section 209 of this act; or

(b) Maintain a "net due to" head office account
    which shall include all net amounts due to other branches of the
    bank outside the Federated States of Micronesia, in an amount which
    shall, in no case, be less than the minimum capital requirement for
    new domestic banks under section 209 of this act. The assigned
    capital and "net due to" head office accounts may be maintained in
    such types of assets and under such conditions as the Authority may
    prescribe.

(2) Any foreign bank with existing branches or offices
    in the Federated States of Micronesia may likewise be required by
    the Authority to comply with either of the two options mentioned
    in subsection (1) of this section.

(3) Before beginning its operations in the Federated
    States of Micronesia, it shall file in the Office of the Registrar
    of Corporations a duly authenticated copy of its charter or articles
    of incorporation, together with a resolution of its board of
    directors approving the establishment of such office or branch in
the Federated States of Micronesia, and a statement verified by oath of the president, manager, agent, cashier, or other authorized officer of said bank, showing:

(a) The name of such foreign bank;

(b) The location of its existing or proposed main office or places of business within and without the Federated States of Micronesia;

(c) The objects of its business;

(d) The amount of its authorized capital;

(e) The amount of its capital stock actually paid in cash;

(f) The amount of the assets of the bank, and of what they consist;

(g) An itemized statement of the liabilities of the bank;

(h) The amount of investment to be devoted to its business in the Federated States of Micronesia, which in no case shall be less than $100,000; and

(i) The names and post office addresses of the chief executive officer in the home bank and all officers in the Federated States of Micronesia, if any, and the time, if any, when the term of office of each expires.

Section 302. Establishment; Application for permit required.

(l) No foreign bank may open any branch or office or change the location of any branch or office in the Federated States
of Micronesia without a permit to do so from the Authority.

(2) An application to the Authority for such permit shall state the benefit to the public expected to result from the granting of the permit applied for.

(3) The Authority, upon receipt of such application, may require the submittal of such additional information as may be necessary in order for it to make the necessary investigations.

Section 303. Application for permit; Authority's investigation. It shall be the duty of the General Manager, immediately after the Authority receives an application for a permit, to make whatever investigations may be necessary as to:

(1) The overall financial condition of the applicant;

(2) Whether or not granting the application would reasonably be apt to result in an over-extension of applicant's resources or facilities;

(3) The character and repute, as well as the banking and commercial experience, of the applicant and the bank's directors and executive officers;

(4) Whether the bank shall be of benefit to the general public; and

(5) The investment which the bank has made or has available for its operations in the Federated States of Micronesia.

Section 304. Application for permit; Issuance by Authority. The Authority may issue the permit applied for if, in its judgment,
the results of the investigations are satisfactory. The decision
of the Authority shall be final. All expenses incurred by the
Authority in connection with such investigations shall be paid by
the applicant in conformity with regulations which the Authority
may make.

Section 305. Issuance of permit; Transmittal to Registrar of
Corporations. Upon the issuance of a permit to an applicant, the
Authority shall forthwith transmit a certified copy thereof to the
Registrar of Corporations who shall file it along with such other
documents submitted to him.

Section 306. Examination for compliance.

(1) When the permit of the Authority is received by the
foreign bank, as provided in section 305, it shall proceed to comply
with all applicable provisions of law so as to place it in readiness
to commence operations upon issuance to it of the license provided
by section 401 of this act.

(2) When such foreign bank is in such position of readiness,
it shall notify the General Manager of the Authority by means of a
statement of all facts necessary to enable the General Manager to
determine whether such foreign bank has, in fact, complied with all
the requirements of law and is lawfully entitled to commence
operations, such statement to be sworn to by a majority of the
directors or by the president or manager of such foreign bank.

(3) Upon receipt of such statement, the General Manager
shall make such investigations as may be necessary to assure himself
that the foreign bank has, in fact, complied with all the provisions
of law to entitle it to a license to engage in the business of
banking.

Section 307. Issuance of bank license.

(1) If, upon a careful examination of the facts so
reported or any other relevant facts which may come to his
knowledge, he is satisfied that the foreign bank has complied with
all of the provisions of this act required before a foreign bank
shall be authorized to open or operate a branch or office in the
Federated States of Micronesia, the General Manager of the Authority
shall issue an initial license to engage in the banking business
valid until it must be renewed according to section 401 of this act.

(2) The General Manager may withhold from a foreign bank
the license authorizing it to commence operations whenever he is
satisfied that the foreign bank seeks to operate in the Federated
States of Micronesia for any other than the legitimate objects
determined by this act.

(3) The expenses incurred by the General Manager in
connection with such investigation shall be paid by the foreign
bank in conformity with regulations which the Authority may make
and issue for that purpose.

Section 308. Appointment of agent for service of process.

Before commencing business in the Federated States of Micronesia, a
foreign bank shall file with the Authority an appointment of the
General Manager as its agent upon whom all process in any action or
proceeding against it arising out of the operations or activities
of its office or offices in the Federated States of Micronesia may
be served, which appointment shall be by its terms perpetual and
irrevocable.

CHAPTER 4

LICENSING OF BANKS

Section 401. Annual licensing of banks.

(1) The Authority shall issue licenses to engage in
banking.

(2) Initial licenses shall be issued to banks authorized
to commence business pursuant to section 206 or section 209
of this act for the remainder of the calendar year.

(3) Every domestic or foreign bank at present operating
a branch or office in the Federated States of Micronesia, or that
may hereafter do so, shall obtain on or before the 31st day of
December of each calendar year a renewal license for each office or
branch to be operated in the Federated States of Micronesia during
the succeeding calendar year.

Section 402. License fees. Initial and renewal licenses
shall be issued upon payment of the corresponding fees as may be
prescribed by the Authority; PROVIDED, however, that the license
fee shall not be less than $1,500 for each branch or office.

Section 403. Extension of license; Grace period. The
Authority shall grant a grace period not exceeding 30 days, during
which an existing license may be continued in effect after the 31st
1 day of December, to any domestic bank or foreign bank which shows
2 good cause thereafter to the Authority, when the Authority
3 considers such action to be in the public interest.
4
5 Section 404. Licenses; Review by the Authority.
6
7 (1) The Authority, in determining whether to issue an
8 annual license to engage in the business of banking, shall consider
9 and determine whether the bank applying for the license has, in its
10 lending and operating practices, served the needs of its community.
11
12 (2) In determining whether a bank has served the needs
13 of its community, the Authority shall, in addition to other factors
14 customarily examined, examine whether:
15
16 (a) Such bank has used its best efforts to hire,
17 train, and promote citizens and residents of the Federated States of
18 Micronesia for executive positions in the bank;
19
20 (b) The loans made by such bank in the Federated
21 States of Micronesia, in view of demand for loans and number of
22 prudent loan opportunities available, bear a reasonable relationship
23 to such bank's deposits in the Federated States of Micronesia; and
24
25 (c) Such bank has obtained from any unfair
26 discrimination among its customers and the people it serves.
27
28 (3) In making the foregoing determination, due
29 consideration shall be given to the herein stated objectives of
30 the Federated States of Micronesia that:
31
32 (a) Executive positions in all banks operating in
33 the Federated States of Micronesia shall be occupied by citizens
1 and residents of the Federated States of Micronesia;
2 (b) At least 75 percent of the total amount of
3 deposits taken by a bank in the Federated States of Micronesia shall
4 be loaned to citizens and residents of and business entities located
5 in the Federated States of Micronesia; and
6 (c) No bank shall discriminate unfairly among its
7 customers and the people it serves.
8
9 CHAPTER 5
10
11 REGULATION AND SUPERVISION OF BANKS
12
13 Section 501. Regulation and supervision of banks by the
14 Authority; General policies. All domestic banks and, to the extent
15 of and with respect to business done at any branches established in
16 the Federated States of Micronesia, all foreign banks doing business
17 in the Federated States of Micronesia shall be regulated and
18 supervised by the Authority in such manner as to secure the safe and
19 sound conduct of such business, to prevent unsound practices, and to
20 maintain the public confidence in such business and protect the
21 public interest and the interests of depositors, creditors, and
22 stockholders.
23
24 Section 502. Regulations; Issuance and promulgation.
25 (1) For the purpose of effectuating the policy declared
26 in section 501 of this chapter, the Authority may adopt regulations
27 consistent with law and sound banking practice.
28 (2) Such regulations shall be brought to the attention
29 of those affected thereby in the manner that the Authority may
Section 503. Examination of banks. In connection with the
bank examination by the Authority pursuant to section 807 of
"The Federated States of Micronesia Monetary Authority Act of 1985,"
each bank, branch, or office so examined shall reimburse the
Authority for the cost of the examination. For this purpose, the
bank or branch or office shall pay to the Authority within the first
15 days of January each year an annual fee in an amount equal to a
prescribed percentage of its average total assets during the
preceding calendar year, as shown by its end-of-month balance
sheets after deducting cash and due from banks; PROVIDED, however,
that the percentage may not exceed one-twentieth of 1 percent. If
the maximum fees authorized in this section should not be sufficient
to defray the entire costs of the Authority, the difference shall be
borne by the Authority.

Section 504. Alternative examination and reports. The
General Manager may accept, in lieu of the examination required or
authorized by section 807 of "The Federated States of Micronesia
Monetary Authority Act of 1985," the most current examination made
by the Federal Deposit Insurance Corporation, the Board of
Governors of the Federal Reserve System, or a Federal Reserve Bank,
or in case of a foreign bank not examined by such agencies, an
examination acceptable by the appropriate government agency in the
home jurisdiction of that bank. The General Manager may also
accept, in lieu of any report which may be required by section 806
Section 505. Limitations on loans; Maximum amounts.

(1) Except as the Authority may otherwise prescribe, no domestic bank or branch of a foreign bank operating in the Federated States of Micronesia shall permit a person to become indebted or liable to it, either directly or indirectly, in an amount exceeding 20 percent of the unimpaired paid-in capital, surplus, and undivided profits of a domestic bank or of the "net due to" head office account and/or assigned capital of a branch of a foreign bank.

(2) In computing the total liabilities, direct or indirect, or any person to a bank, there shall be included all liabilities to the bank of any related person and any loans made for his benefit or for the benefit of any related person.

(3) In computing the total liabilities of any firm, copartnership, or unincorporated association to the bank, there shall be included all liabilities of its individual members and all loans made for the benefit of the copartnership or unincorporated association or any members thereof.

(4) In computing the total liabilities of any corporation to a bank there shall be included all liabilities of and all loans made for the benefit of the corporation and its majority owned subsidiaries.
(5) Nothing in this section shall be construed as restricting in any manner loans made by any branch of a foreign bank in the Federated States of Micronesia for the account of and with funds supplied by its head office or branches outside the Federated States of Micronesia, but the Authority may require that all such loans be reported to it in accordance with such rules and regulations as it may issue on the subject.

Section 506. Limitations on loans; Related persons.

(1) Except as herein provided, no domestic bank or branch of a foreign bank operating in the Federated States of Micronesia shall make any extension of credit to any of its directors, officers, stockholders, agents, or employees, or to any related person, either directly or indirectly, except upon the written application of such person or related person stating the type and amount of credit applied for, terms, and security, if any, offered therefor, to the board of directors or to the loan committee of the bank or branch, and then only with the written approval of a majority of the board of directors or a majority of the loan committee of the bank or branch (excluding the person seeking the credit) before the loan is made; PROVIDED, however, that the approval of the loan as allowed by the board of directors or the loan committee of the bank or branch shall be made a part of the minutes of the next directors' meeting of the bank.

(2) In order to provide effective protection of the interests of the depositors and other creditors of branches of
1 foreign banks in the Federated States of Micronesia, the head
2 office of such branches shall fully guarantee the prompt payment
3 of all liabilities of its branch or branches in the Federated States
4 of Micronesia.

5 Section 507. Limitations on loans; Use of bank's stocks as
6 security; Purchase of bank's stock. No domestic bank or branch of
7 a foreign bank operating in the Federated States of Micronesia shall
8 make a loan on the security of its own stock or for the purchase of
9 its own stock.

10 Section 508. Limitations on loans; Liability for violations.
11 Any director, officer, stockholder, agent, or employee of any bank
12 or branch of a foreign bank operating in the Federated States of
13 Micronesia who knowingly permits the funds of the bank or branch to be
14 loaned in a dishonest manner or contrary to sections 505, 506, or 507 of
15 this chapter shall be held responsible in his individual capacity for all
16 damages or losses which the bank or branch, its stockholders, depositors,
17 creditors, or any persons shall have sustained in consequence thereof.

18 Section 509. Prohibited loans and withdrawals; Penalties. Any
19 director, officer, stockholder, agent, or employee of a bank or a branch
20 of a foreign bank operating in the Federated States of Micronesia, or
21 related person, who asks for or receives any commission, money, property,
22 or thing of value for his own personal benefit for procuring or assisting
23 in procuring a loan from such bank or branch or for permitting any person
24 to overdraw any account with such bank or branch shall be fined not more
25 than $1,000, or imprisoned not more than 1 year, or both.
Section 510. Prohibited investments by a domestic bank or branch of a foreign bank. No domestic bank or branch of a foreign bank operating in the Federated States of Micronesia shall invest in the stock of any other corporation, acquire any real estate, except with the approval of the Authority for use as its principal or branch office in the Federated States of Micronesia, or pledge any of its assets as security for or guaranty any obligations of others except for the issuance of its letters of credit in connection with the shipment of goods.

Section 511. Declarations of dividends; Requisites. No domestic bank shall declare any dividend or make any other distribution to its stockholders except:

(1) Out of earnings for the current and next preceding year; or

(2) With the prior approval of the Authority.

Section 512. Bank stock; Ownership limitations.

(1) In order to promote diffusion of bank ownership, no person or related person, corporation, partnership, association, or firm shall acquire more than 20 percent of the stock of a domestic bank.

(2) The Authority may, however, exempt stockholdings of any person or related person, or corporation, partnership, association, or firm from the application of the above-prescribed ownership limitation in exceptional cases and when the circumstances warrant, such as but not limited to, purchases in the equity of
distressed banks for purposes of rehabilitation.

Section 513. **Limitations on sale of assets, merger, etc.** No domestic bank may merge or consolidate with, or sell a substantial portion of its assets to, another bank without the prior approval of the Authority.

Section 514. **Deposit and other insurance.**

(1) At such time as it becomes available under the laws of the United States, all domestic banks and foreign banks, as a condition to operating an office or branch in the Federated States of Micronesia, shall secure their depositors by deposit insurance of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation of the United States.

(2) All domestic and foreign banks operating an office or branch in the Federated States of Micronesia shall provide themselves with protection and indemnity against burglary, embezzlement, and other similar insurable loss. If a domestic or foreign bank refuses to comply with this requirement, the General Manager of the Authority shall have the right to make arrangements to furnish such protection and indemnity, charging the cost thereof to the said bank.

Section 515. **Prohibited interests of Government officials in banks; Removal from office.**

(1) No member of the Board of the Authority nor the Public Auditor nor any representative of the Authority or the Public Auditor nor any bank examiner shall, during the discharge of his
office:

(a) Be an officer, director, or employee in any bank or company affiliated therewith;

(b) Own or deal directly or indirectly in the shares or obligations of such bank or affiliated company;

(c) Be interested in or receive directly or indirectly from such bank or affiliated company, or from any of its officers, directors, or employees, any salary, gratuity, compensation, or other thing of value by way of gift, credit, compensation for services, or for any other reason; or

(d) Be interested in or under obligation to negotiate any loan, obligation, or settlement for another person with such bank or affiliated company.

(2) Any violation of this section by any official or employee referred to herein shall be sufficient cause for his removal from office by the President of the Federated States of Micronesia.

Section 516. Permissible interests of Government officials.

Notwithstanding the provisions of section 515 of this chapter, any official or employee referred to in such section may own or keep one or more bank accounts, either checking, savings, or time, and may rent safe deposit boxes in any bank referred to in such section and doing business in the Federated States of Micronesia, and may obtain a loan from any such bank, foreign bank, or affiliated company;

PROVIDED, however, that such official or employee makes full
1 disclosure thereof to the Board of the Authority and, in the case of
2 each of the members of the Board of the Authority, he shall make the
3 disclosure to the President of the Federated States of Micronesia.
4
5 Section 517. Filing fees; Disposition of fines.
6 (1) Every domestic bank or foreign bank in the Federated
7 States of Micronesia shall, upon filing its articles of incorporation
8 in the Office of the Registrar of Corporations, pay a filing fee
9 prescribed by this Office, which shall not be less than $50.00.
10 (2) Every domestic or foreign bank desiring to file in
11 the Office of the Registrar of Corporations articles amendatory or
12 supplementary or a certificate of increase of capital stock shall
13 pay a filing fee prescribed by this Office, which shall not be less
14 than $25.00.
15 (3) The fee for furnishing a certified copy of any of
16 the documents referred to in subsections (1) and (2) of this section
17 shall be $.50 per folio, but not less than $10.00.
18 (4) All fees required under the provisions of this title
19 shall be paid to the Office of the Registrar of Corporations and
20 shall be accounted for and covered into the General Fund of the
21 Federated States of Micronesia; PROVIDED, however, that the expenses
22 incurred by the Authority in connection with the investigations
23 relative to the issuance of a bank license to a domestic or foreign
24 bank, such as those expenses under sections 208, 504, and 307, the
25 fines imposed on a domestic or foreign bank due to violations or non-
26 compliance with certain provisions of this act such as those imposed
1 in sections 509 and 518 of this act, and the annual bank examination
2 fees under section 503 of this act, shall be paid to the Authority
3 and for its own account.
4
5 Section 518. General penalties.
6 (1) For any violation of this act or the regulations
7 prescribed pursuant to section 502 of this act, the delinquent
8 domestic or foreign bank shall be subject to a fine of not more than
9 $1,000 for each day that the violation continues and, in the case of
10 a material violation, to the cancellation of its license.
11 (2) Such fine or cancellation of the license shall be
12 imposed by the Authority only after notice to the delinquent bank
13 and a hearing concerning the alleged violation.
14 (3) In any such case, the Authority shall send a written
15 notice of its action to the bank concerned as quickly as
16 circumstances will permit, and if the cancellation of the bank's
17 license has been decided upon, shall transmit a written order to that
18 effect to the Registrar of Corporations for appropriate action, and
19 shall submit forthwith a written report on the matter to the
20 President of the Federated States of Micronesia for his information.
21
22 CHAPTER 6
23
24 RECEIVERSHIP AND LIQUIDATION
25
26 Section 601. Appointment of conservator.
27 (1) If, in consequence of an examination or report made
28 by a bank examiner, or otherwise, the Authority should have reason
29 to believe that a domestic bank or foreign bank is not in sound
1 financial condition to continue doing business; or that its affairs
2 are being conducted in such a manner that the public or the persons
3 or entities who have securities or funds under its custody are in
4 danger of being defrauded; or if any such bank shall violate its
5 charter or any law relative thereto, or this act in any material
6 respect; or if it becomes insolvent, the Authority may appoint a
7 conservator to take charge of the assets, liabilities, and the
8 management of that bank, collect all monies and debts due said bank,
9 and exercise all powers necessary to preserve the assets of the bank,
10 reorganize the management thereof, and restore its viability. He
11 shall have the power to overrule or revoke the actions of the
12 previous management and/or the board of directors of the bank, any
13 provision of law to the contrary notwithstanding, and such other
14 powers as the Authority shall deem necessary.
15
16 (2) As much as practicable, the conservator should not
17 be connected with the Authority but should be competent and knowl-
18 edgeable in bank operations and management. The remuneration of the
19 conservator and other expenses attendant to the conservatorship
20 shall be borne by the bank. He shall report and be responsible to
21 the Authority until such time as the Authority is satisfied that the
22 bank can continue to operate on its own and the conservatorship is no
23 longer necessary. The conservatorship shall likewise be terminated
24 should the Authority, on the basis of the report of the conservator
25 or of its own findings, determine that the continuance in business
26 of the bank would involve probable loss to its depositors or
creditors, in which case the provisions of section 602 of this act shall apply.

Section 602. Receivership; Appointment and duties of receiver.

(1) Whenever, upon examination or report by an examiner, disclosed that the condition of such bank is one of insolvency, or that its continuance in business would involve probable loss to its depositors or creditors, the Authority may, upon finding the report and facts therein to be true, forbid the bank to do business in the Federated States of Micronesia and shall forthwith apply to the Trial Division of the Supreme Court of the Federated States of Micronesia for the appointment of a receiver to immediately take charge of and wind up the affairs of such bank.

(2) If the Supreme Court, after hearing all parties concerned, determines that the facts alleged by the Authority are supported by the evidence, it shall appoint a receiver who may be a member of the Board of the Authority or any other person of recognized competence in banking and finance.

(3) Upon his appointment the receiver shall, under the direction of the Authority, take possession of the assets and liabilities, books, records, papers, and files of every description belonging to the bank; and collect all loans, fees, and claims of the bank; and see to the payment of its obligations and debts, and to the necessary expenses of receivership.

(4) The receiver shall proceed to liquidate the affairs
of the bank as soon as possible, and to this end may sell the
personal and real property and other assets of the bank, but subject
to the approval of the Authority. The receiver shall continue to
perform his duties in the manner prescribed herein until the bank
or foreign bank is fully liquidated.

Section 603. Voluntary liquidation. Any bank may terminate
its business in the Federated States of Micronesia with the prior
approval and under the supervision of the Authority in such event.
The business and assets of the bank in the Federated States of
Micronesia shall be liquidated in an orderly manner so as to fully
protect all of the creditors, depositors, and stockholders of the
bank in the Federated States of Micronesia.

CHAPTER 7

REPEALER AND EFFECTIVE DATE

Section 701. Repealer. Title 29 of the Code of the Federated
States of Micronesia is hereby repealed in its entirety.

Section 702. Effective date. This act shall become law upon
approval by the President of the Federated States of Micronesia or
upon its becoming law without such approval; PROVIDED, however, that
this act shall not take effect earlier than "The Federated States of
Micronesia Monetary Authority Act of 1985."

Date: 5/18/85

Introduced by: Michael H. Thomas