AN ACT

To create a new title 58 of the Code of the Federated States of Micronesia by adding a new chapter 5 and to further amend title 55 of the Code of the Federated States of Micronesia, as amended by Public Laws Nos. 5-16 and 5-88, by adding a new subchapter V to chapter 6 for the purpose of authorizing borrowing by the Federated States of Micronesia in anticipation of receipt from the United States of America of grant funds under the Compact of Free Association, with the security for such borrowing being a pledge of all or a portion of such grant funds, creating a Bond Repayment Fund, and for other purposes.

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


2. Section 2. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 511 of subchapter I of chapter 5 to read as follows:

"Section 511. Short title. This chapter shall be known as the Compact Funds Financing Act."

3. Section 3. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 512 of subchapter I of chapter 5 to read as follows:

"Section 512. Definitions. As used in this chapter, these terms shall have the following meanings, unless otherwise required by context:

(1) 'Bond' or 'Bonds' means any bond, note or other evidence of indebtedness issued under this chapter;

(2) 'Bond Fund' means the fund created pursuant to section 523 of this chapter;
(3) 'Committee' means the committee referred to in section 524 of this chapter;

(4) 'Compact of Free Association' means the Compact of Free Association between the Federated States of Micronesia and the United States of America;

(5) 'Credit Enhancement' means bond insurance, letters of credit, or similar credit enhancement instruments;

(6) 'Federated Development Authority' means the FSM instrumentality of that name;

(7) 'FSM' means the Federated States of Micronesia;

(8) 'FSM Fiscal Agent' means any fiscal agent selected and acting pursuant to subchapter V of this chapter;

(9) 'Indenture' means any indenture, agreement or other instrument pursuant to which the Bonds shall be issued, as approved by the resolution;

(10) 'Pledged Compact Funds' means the amounts payable under the Compact of Free Association which the President of the Federated States of Micronesia is authorized to pledge to the payment of the Bonds following legislative action by the FSM and its constituent States and made available for expenditure through the Bond Repayment Fund;

(11) 'Pledged Funds' means the Pledged Compact Funds and/or other pledged moneys, and investment earnings thereon;

(12) 'Resolution' means the resolution or resolutions
of the committee authorizing the issuance and sale of the
Bonds in one or more series, on the terms and conditions,
and substantially in the form, approved therein;
(13) 'Secretary' means the Secretary of Finance of the
Federated States of Micronesia;
(14) 'State' means any constituent State of the
Federated States of Micronesia;
(15) 'Swap instruments' has the meaning set forth in
section 531(1)(p) of this chapter; and
(16) 'Trustee' means the FSM Fiscal Agent appointed as
such in the Indenture and any successors or assigns, who
will act as such for the benefit of the holders of the
Bonds."

Section 4. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 513 of
subchapter I of chapter 5 to read as follows:
"Section 513. Purpose; Bonds; Costs of Issuance.

(1) The purpose of this chapter is to authorize
borrowing by the FSM for the benefit of itself and/or
any one or more of its constituent States in anticipation of
receipt from the United States of America of grant funds
under the Compact of Free Association. It is necessary and
appropriate that the FSM, in cooperation with the State
governments of the FSM, use all practical means to enhance
the benefits derived from moneys payable to the FSM and the
State governments pursuant to the Compact of Free Association by participating in a financing secured by all or a portion of such payments due from the United States of America. This method of financing is in the public interest and serves a public purpose.

(2) The securities evidencing this indebtedness may be general or limited obligations of the FSM, entitled 'Federated States of Micronesia Compact Financing Bonds,' may bear additional designations indicating the purpose of the financing as the committee may determine, may be issued in one or more series (including refundings), and may be secured by the full faith and credit of the FSM, a pledge of grant funds under the Compact of Free Association, Credit Enhancement, or other moneys, all as specified in the resolution.

(3) The costs of issuance of such Bonds, including printing, filing fees with regulatory agencies, such as the United States Securities and Exchange Commission, legal, rating agency, financing advisors', placement agent's, underwriters', Trustee's and similar fees and expenses, and fees or premiums for Credit Enhancement, may also be paid from the proceeds of sales of the Bonds. The costs of issuance may also include prior expenditures incurred in connection with such issuance.

(4) In the event Bonds that are general obligations of
the FSM are issued in a financing in which the FSM and/or any State does not participate in the proceeds therefrom, the participating State or States shall provide assurance satisfactory to the Secretary that the FSM and/or the non-participating States will be protected from any loss arising in connection with such Bonds before such Bonds may be issued."

Section 5. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 514 of subchapter I of chapter 5 to read as follows:

"Section 514. Accounts and records. The Secretary and the committee shall keep full and particular accounts and records of all their proceedings under this chapter and they shall transmit to the President an abstract of all such proceedings in any calendar year, with a report, to be transmitted by the President to the Speaker of the Congress, the Governor of each State, and the Speaker of the legislature of each State annually on or before the 30th day of April of each year. All books and papers pertaining to the matters provided for in this chapter shall at all times be open to the inspection of authorized representatives of the National or any State government, any citizen of the FSM, or any other interested party."

Section 6. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 521 of
subchapter II of chapter 5 to read as follows:

"Section 521. Authorization; Validity.

(1) The FSM is authorized to issue Bonds for the benefit of itself and/or any one or more of its constituent States in one or more series (including refundings), each series to be authorized by the Secretary acting for the committee, following the adoption of the resolution fixing the terms and conditions of the issue and the form of the Bonds.

(2) As specified in the resolution, the Bonds shall be valid general or limited obligations of the FSM, payable from one or more of the following: general funds of the FSM, general funds of any State, Pledged Funds, proceeds of any Credit Enhancement or swap instruments, and proceeds of refunding bonds or other indebtedness. The validity of the Bonds shall not be affected by the validity or regularity of the projects thereby funded. No subsequent appropriation will be necessary by the Congress of the Federated States of Micronesia for moneys for payment of the principal of, or interest or premium, if any, on the Bonds. This chapter and the resolution shall constitute the sole and complete authorization for payment of the principal of, and interest and premium, if any, on, the Bonds.
(3) (a) If the Bonds constitute general obligations of the FSM, all Bonds shall contain on the face thereof a statement to the following effect: 'This Bond constitutes a general obligation of the Federated States of Micronesia and the full faith and credit of the Federated States of Micronesia is pledged to the payment of principal of, and interest and premium, if any, on this Bond.'

(b) If the Bonds constitute limited obligations of the FSM, all Bonds shall contain on the face thereof a statement to the following effect: 'This Bond constitutes a limited obligation of the Federated States of Micronesia, payable solely [state sources of repayment]. Neither the taxing power nor the full faith and credit of the Federated States of Micronesia is pledged to the payment of the principal of, or interest or premium, if any, on this Bond.'

Section 7. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 522 of subchapter II of chapter 5 to read as follows:

"Section 522. The Pledge of Funds.

(1) Upon the recommendation of the committee as set forth in the resolution, the President may pledge all or any part of the Pledged Funds to secure payment of the Bonds. The Pledged Compact Funds so pledged shall be paid directly by the United States of America to the Trustee for the benefit of the holders of the Bonds. Any pledge pursuant
to the provisions hereof shall be irrevocable and valid and
binding from the time such pledge is made and shall be deemed
a valid obligation of the Pledged Funds, notwithstanding the
provisions of section 220 of title 55 of the Code of the
Federated States of Micronesia. The Pledged Funds so
pledged and thereafter received by the Trustee shall
immediately be subject to the lien of such pledge without
any physical delivery thereof or further act, and the lien
of any such pledge shall be valid and binding as against all
parties having claims of any kind in tort, contract, or
otherwise against the FSM or any of its political
subdivisions, irrespective of whether such parties
have notice thereof. Neither the resolution nor the
Indenture by which a pledge is created need be filed or
recorded in the records of the FSM in order to perfect the
lien or give notice of the pledge; PROVIDED that the FSM
shall give due written notice of the pledge to the
United States of America.

(2) The committee shall determine the extent of the
pledge, provisions for release of moneys or other assets
from the pledge, and other matters relevant thereto, all as
evidenced in the resolution or the Indenture; PROVIDED,
however, that the committee may not make such a
determination nor any recommendation to the President
regarding the pledge until it receives from each
participating State and, if participating, from the FSM:

(a) A copy of a statute or statutes that:

   (i) Identifies the source and amount of

funds to be used to secure the borrowing;

   (ii) Authorizes, if appropriate, the President

to pledge the specified security offered by the partici-

pating State, or, if participating, the FSM as security for

all financial obligations related to or resulting from the

borrowing; and

   (iii) Authorizes the payment from the

specified security offered by the participating State or, if

participating, the FSM for the purpose of, and to the extent

required, to satisfy all financial obligations attributable

to the participating State or, if participating, the FSM

related to or resulting from the borrowing;

(b) An opinion, addressed to the President, of

the Attorney General or the highest legal officer of the

participating State or, if participating, the FSM that the

statute or statutes provided is or are legally sufficient to

meet the requirements set forth in subsection (a), above,

and that all other necessary legal steps, administrative or

otherwise, have been completed by the participating State

or, if participating, the FSM in order to make the specified

security available through the Bond Repayment Fund

established pursuant to subchapter V of chapter 6 of title
55 of the Code of the Federated States of Micronesia for the
purposes contemplated under this chapter; and PROVIDED
FURTHER, however, that the pledge to be determined by the
committee shall not exceed the sum of the pledges authorized
by the participating States or, if participating, the FSM."

Section 8. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 523 of
subchapter II of chapter 5 to read as follows:

"Section 523. Bond Fund. As set forth in the resolution,
the proceeds of sale of the Bonds, net of any issuance
costs, shall be paid into one or more trust funds with
an FSM Fiscal Agent, as determined by the committee,
and shall be managed and made available for the
distributions and uses as set forth in an agreement
regarding Pledged Funds and investment and distribution of
Bond proceeds among the National and State Governments of
the Federated States of Micronesia."

Section 9. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 524 of
subchapter II of chapter 5 to read as follows:

"Section 524. Committee.

(1) The committee shall consist of five members, who
shall have one vote each, including the Secretary, the
Director of Administrative Services of Yap, the Director of
Finance of Truk, the Director of the Department of Treasury
of Pohnpei, and the Director of Finance and Treasury of
Kosrae, or their designees. Members of the committee shall
serve without compensation. The Secretary or his designee
shall be the secretary of the committee and may certify its
action. The committee, through the Secretary or his
designee, shall render reports from time to time to the
Federated Development Authority for informational purposes.

(2) Subject to the express provisions of this
subchapter II, the committee is authorized to determine, and
by resolution shall determine, all matters set forth in
this chapter to be determined by the committee; PROVIDED
that any payments on the Bonds in any year shall not
exceed the Pledged Funds held or to be received by the
Trustee in such year.

(3) The committee may adopt the resolution or any other
resolution it may be required to adopt (a) by unanimous
written consent, or (b) at a meeting of the committee, by an
affirmative vote of not less than four of its members.
Presence at any meeting of the committee may be either in
person or by conference telephone call during which each
member can hear each other member present during such
proceedings."

Section 10. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 525 of
subchapter II of chapter 5 to read as follows:
"Section 525. Tax free nature of the Bonds. The Bonds and the repayment of the principal of, and interest and premium, if any, thereon, and original issue discount and market discount, if any, with respect thereto, shall not be subject to any tax, assessment or levy, now or hereafter imposed, of the FSM or any of its political subdivisions, nor shall the FSM or any of its political subdivisions impose any tax, assessment or levy upon the sale or disposition of such Bonds. The Bonds shall be deemed obligations not located within the jurisdiction or legal boundaries of the FSM or any of its political subdivisions for purposes of any national, state or local taxation, assessment or levy."

Section 11. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 531 of subchapter III of chapter 5 to read as follows:

"Section 531. Resolution.

(1) Whenever the committee determines that the sale of any bonds, notes or other evidence of indebtedness is necessary or desirable, it shall adopt a resolution authorizing the issuance and sale of Bonds. The resolution shall authorize and direct the Secretary to arrange for the preparation of the requisite number of suitable Bonds, in registered form (unless the resolution directs the Bonds to be issued in book entry form), and either shall specify as to such Bonds then to be sold, or shall authorize the
execution of the Indenture which shall contain, the
following information:

(a) Whether the Bonds shall be general or limited
obligations of the FSM;

(b) The currency in which any or all of the Bonds
are to be repaid, aggregate number, denominations and the
date of the Bonds to be sold;

(c) The dates of maturity, the amount of the
Bonds maturing at each date of maturity, which amounts need
not be equal, and the establishment of any sinking fund
schedule or schedules;

(d) Whether the Bonds are to be subject to
optional and/or mandatory redemption prior to maturity, and,
if so, the provisions for such redemption, the manner of the
call thereof, and the price or prices at which the Bonds
shall be subject to redemption;

(e) The annual rate, or rates, of interest which
the Bonds to be issued shall bear, which rate or rates may
be determined at the time of the sale of the Bonds and which
rate or rates may be fixed or variable in accordance with a
formula provided for in the resolution or the Indenture;

(f) The interest payment dates;

(g) Whether the Bonds shall be issued in
certificate form and/or in book entry form; if the Bonds are
to be issued in certificate form, the form and language of
the Bonds, and, if the Bonds are to be issued in book entry
form, whether the book entry system and register shall be
maintained by the Secretary, the Trustee, or another agent;

(h) Whether the right is reserved to make
delivery in the form of temporary or interim bonds,
certificates, or receipts, exchangeable for definitive Bonds
when executed and available for delivery, and, if such right
is reserved, the denominations and form of such temporary
securities;

(i) Whether the Bonds are to be sold at public
sale or negotiated sale and, if a public sale, the method
of determining the lowest interest cost bid, and, if a
negotiated sale, the lowest purchase price to be received
by the FSM in any public offering or private placement of
the Bonds;

(j) Whether the Bonds shall be in the nature of
commercial paper (i.e., issued in large denominations and
scheduled to mature in 270 days or less);

(k) Whether all or any portion of the Bonds
shall be additionally secured by Credit Enhancement and,
if so, an authorization of the terms and conditions
thereof;

(l) The restrictive and financial covenants
governing the Bonds, if any;

(m) The appointment of the Trustee, and
additional fiscal agents, registrars or paying agents, if any;

(n) The place of issuance of the Bonds, which may be inside or outside the territorial limits of the FSM;

(o) The law governing the Indenture and the Bonds;

(p) The designated sub-fund within the Bond Repayment Fund into which all moneys pledged to the payment of the Bonds shall be placed in accordance with subchapter V of chapter 6 of title 55 of the Code of the Federated States of Micronesia;

(q) Whether in conjunction with issuance and sale of the Bonds, the FSM shall enter into one or more agreements relating to transfer or mitigation of currency or interest rate risks, minimization of borrowing costs or similar fiscal purposes between the FSM and any counter-parties, commercial or investment banks, dealers or similar parties ('swap instruments'), which may include indemnities; and

(r) Any and all other terms and conditions of the Bonds and of the execution, issuance and sale thereof, which shall be consistent with all of the provisions of this chapter or any other applicable law of the FSM or a participating State.

(2) The resolution may also specify that the Secretary
may determine the interest rate or rates, maturity or
redemption date or dates, and purchase price of the Bonds if
the committee determines in the resolution the maximum rate
of interest, latest maturity date and lowest purchase price
for the Bonds."

Section 12. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 532 of
subchapter III of chapter 5 to read as follows:

"Section 532. Medium of payment; Place of payment.
Principal of, and interest and premium, if any, on the Bonds
shall be payable in the currency designated by the committee
in the resolution at the office of any FSM Fiscal Agent or
at the office of the Secretary."

Section 13. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 533 of
subchapter III of chapter 5 to read as follows:

"Section 533. Reference to Act. Each Bond shall contain a
reference to this Compact Funds Financing Act, and if
subject to call or redemption prior to maturity, a recital
to that effect."

Section 14. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 534 of
subchapter III of chapter 5 to read as follows:

"Section 534. Duties of Secretary. Immediately after the
adoption by the committee of any resolution in conformity
with section 531 of this chapter, the Secretary shall make
any determinations required at or immediately prior to the
sale of the Bonds and shall arrange for the preparation of
the requisite number of suitable Bonds, in accordance with
the resolution."

Section 15. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 535 of
subchapter III of chapter 5 to read as follows:

"Section 535. Signatures; Seal. Each Bond shall bear the
manual or facsimile signature of the Secretary and an
impress or a facsimile of the seal of the FSM. Each such
signature shall be that of the person who shall be in office
at the date of authorizing the affixing thereof. Bonds so
executed, when sold and authenticated by an FSM Fiscal
Agent, shall be valid and binding notwithstanding any of
such persons having ceased to hold their respective offices
before the issuance and delivery of the Bonds."

Section 16. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 536 of
subchapter III of chapter 5 to read as follows:

"Section 536. Temporary Bonds. If the right so to do has
been reserved in the resolution adopted in conformity with
section 531 of this chapter, temporary or interim Bonds,
certificates, or receipts may be issued and delivered in
lieu of definitive Bonds, and shall be exchangeable for such
definitive Bonds when they are executed and available."

Section 17. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 537 of
subchapter III of chapter 5 to read as follows:

"Section 537. Public or negotiated sale. The Bonds shall
be sold by the Secretary at such time as may be fixed by the
Secretary and upon such notice as the Secretary may deem
advisable, or at such later time to which the sale shall
have been continued, either at public sale, upon sealed
bids, to the bidder whose bid will result in the lowest
cost, based upon net/true/or other method generally accepted
in the financial community for calculation of interest cost
on account of those Bonds, or at negotiated sale as set
forth in the resolution. If the Bonds are to be sold at
public sale, the method of determining the lowest interest
cost bid shall be prescribed in the resolution. The
Secretary may sell the Bonds at a price below the par value
thereof. The interest, if any, accrued to the date of
delivery of and payment for the Bonds shall be added to the
sale price of the Bonds in any case. The sale shall be for
cash, payable upon delivery of Bonds in definitive form, or
if the right to deliver temporary securities has been
reserved, then upon delivery of the temporary securities."

Section 18. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 541 of
subchapter IV of chapter 5 to read as follows:

"Section 541. Method and time of payment. The Secretary, directly or through FSM Fiscal Agents, or other duly authorized agents, shall, on the respective dates of maturity of all Bonds, or on the date fixed for the prior redemption of any thereof, or as soon thereafter as said Bonds are surrendered to him, or to any such FSM Fiscal Agent, or other duly authorized agent, pay the same or cause the same to be paid."

Section 19. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 542 of subchapter IV of chapter 5 to read as follows:

"Section 542. Perforation of Bonds to indicate payment. Upon the payment of any Bond, the Secretary or FSM Fiscal Agent, or other duly authorized agent shall perforate the same with a suitable device in a manner to indicate such payment."

Section 20. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 543 of subchapter IV of chapter 5 to read as follows:

"Section 543. Destruction of Bonds after payment or cancellation. The Secretary, or FSM Fiscal Agents, or other duly authorized agent, may destroy any or all Bonds which have been previously paid or canceled as provided herein."

Section 21. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 544 of subchapter IV of chapter 5 to read as follows:

"Section 544. Bond register. The Secretary, or FSM Fiscal Agents, or other duly authorized agent, shall maintain a bond register which shall be open for public inspection at all reasonable times."

Section 22. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 545 of subchapter IV of chapter 5 to read as follows:

"Section 545. Penalty for violation of bond register provisions. Any person who violates any provision of the bond register shall be subject to a penalty of not less than $1,000 nor more than $5,000."

Section 23. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 546 of subchapter IV of chapter 5 to read as follows:

"Section 546. Effective date. This Act shall take effect on the date of its approval."

Section 24. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 547 of subchapter IV of chapter 5 to read as follows:

"Section 547. Repeal of existing law. All existing laws and regulations relating to the Bonds of the Federated States of Micronesia are hereby repealed."

Section 25. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 548 of subchapter IV of chapter 5 to read as follows:

"Section 548. Repeal of existing law. All existing laws and regulations relating to the Bonds of the Federated States of Micronesia are hereby repealed."
Micronesia is hereby created by adding a new section 544 of subchapter IV of chapter 5 to read as follows:

"Section 544. Redemption. Whenever the committee shall determine that any Bonds then outstanding, and which by their terms are subject to redemption prior to maturity, should be redeemed, and that money sufficient for such redemption will be available at the time proposed for such redemption, it may, by resolution, direct the Trustee to call and redeem any such Bonds, at a time specified in such resolution, and the Trustee shall thereupon give notice of such redemption and redeem the Bonds in accordance with the provisions for redemption provided for therein or in the Indenture."

Section 22. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 545 of subchapter IV of chapter 5 to read as follows:

"Section 545. Refunding bonds. The committee may provide for the issuance, sale, or exchange of refunding bonds to redeem or retire any Bonds upon the terms, at the times and in the manner that it determines necessary and appropriate. Refunding bonds may be issued in a principal amount sufficient to pay all, or any part, of the principal amount of outstanding Bonds, the interest and premium, if any, thereon due upon call and redemption thereof prior to maturity and all expenses of the refunding. Issuance of
Section 23. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 551 of subchapter V of chapter 5 to read as follows:

"Section 551. Designation of banking firms or associations. Upon the recommendation of the committee, the Secretary may designate responsible banking firms, associations, or incorporated banking institutions, having a paid-up capital and surplus of not less than U.S. $100 million, as an FSM Fiscal Agent for the payment of the Bonds. The FSM Fiscal Agent selected as Trustee shall have a paid-up capital and surplus of not less than U.S. $500 million. An FSM Fiscal Agent may be organized under the laws of the United States of America, any of its constituent states (including the District of Columbia), or any member state of the Organization for Economic Cooperation and Development."

Section 24. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 552 of subchapter V of chapter 5 to read as follows:

"Section 552. Fidelity bonds. With the approval of the committee, the Secretary may fix the amount of and require bonds from any FSM Fiscal Agent, conditioned on the faithful performance of its duties as an FSM Fiscal Agent."

Section 25. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 553 of subchapter V of chapter 5 to read as follows:

"Section 553. Administration. The Secretariat shall administer the FSM Fiscal Agent to ensure the faithful performance of its duties as an FSM Fiscal Agent."

Section 26. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 554 of subchapter V of chapter 5 to read as follows:

"Section 554. Amendments. This Act shall be amended by substituting the Secretary, for the Governor, in the provisions of this Act relating to the FSM Fiscal Agent."

Section 27. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 555 of subchapter V of chapter 5 to read as follows:

"Section 555. Construction. This Act shall be construed as an amendment to Title 58 of the Code of the Federated States of Micronesia."
Micronesia is hereby created by adding a new section 553 of subchapter V of chapter 5 to read as follows:

"Section 553. Authority of Secretary. Subject to the approval of the committee, the Secretary may do all things necessary or proper to effectuate the purposes of this subchapter, including, among others, the making of such arrangements with any FSM Fiscal Agent as may be necessary including the compensation, if any, of any FSM Fiscal Agent for services under this subchapter, and the time when funds for the redemption of Bonds shall be remitted to it."

Section 26. Title 58 of the Code of the Federated States of Micronesia is hereby created by adding a new section 554 of subchapter V of chapter 5 to read as follows:

"Section 554. Unclaimed funds. Whenever any moneys held by an FSM Fiscal Agent in trust for the payment of the principal of, interest or premium, if any, on or discharge of, any Bonds shall have remained unclaimed for 7 years after the date when such became due and payable, either on interest payment dates, at their stated maturity dates or by call for earlier redemption, the Secretary may after adequate public notice and at such time as he may determine, instruct FSM Fiscal Agents to return any such money originally transferred to meet the payments of the Bonds and deposit it with such FSM Fiscal Agent as the committee shall determine, and such money shall thereafter be treated
in all respects as part of the Bond Fund, and the owner of
the Bond or Bonds affected thereby shall no longer have any
claim on such money."

Section 27. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 555 of
subchapter V of chapter 5 to read as follows:

"Section 555. Lost or destroyed Bonds; Security; Face
statements.

(1) Whenever it appears to the Secretary upon
competent proof that any Bond has been lost or destroyed and
the required security has been deposited with the
Trustee, he may issue or cause to be issued Bonds similar
as to form and content. If the indebtedness evidenced by
the instrument has matured and is due and payable, he may
cause it to be paid if the records of the Trustee show the
Bond is outstanding and unpaid.

(2) Before the Secretary may cause to be issued a new
Bond or cause to be paid the indebtedness represented by a
lost or destroyed Bond, the holder of the Bond shall
give security in the form of a bond or indemnity (as
the Trustee reasonably determines) to indemnify the FSM
against loss or damage that may be incurred on account of
the lost or destroyed Bond. The security may be specified
by, is subject to the approval of, and, after approval is
endorsed thereon, shall be filed with the Trustee.
(3) Every replacement Bond shall state upon its face
the number and denomination of the Bond for which it is
issued; that it is issued in the place of the Bond claimed
to have been lost or destroyed; that it is issued as a
duplicate; and that if both the original and duplicate
instruments are presented to and paid by the Secretary or
an FSM Fiscal Agent, the Secretary shall not be held
responsible for the duplicate payment but may rely on the
security given."

Section 28. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 561 of
subchapter VI of chapter 5 to read as follows:
"Section 561. Choice of law. The committee may choose to
have all or a portion of the provisions of the Indenture and
the Bonds governed by the law of a jurisdiction other than
that of the FSM; PROVIDED that the power and authority of
the FSM to issue the Bonds shall be construed under the laws
of the FSM."

Section 29. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 562 of
subchapter VI of chapter 5 to read as follows:
"Section 562. Liability of committee members, officers and
employees. No members of the committee, the officers or
employees of the committee, the FSM or any political
subdivision thereof, the FSM Attorney General or any
person executing any Bonds shall be subject to any personal
liability or accountability by reason of the issuance
thereof."

Section 30. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 563 of
subchapter VI of chapter 5 to read as follows:

"Section 563. Pledge. The FSM does hereby pledge to and
agree with the holders of the Bonds and the provider of any
Credit Enhancement that the FSM will not limit or alter the
rights hereby vested in the holders of the Bonds, on and
after the date of issuance of the Bonds, until the Bonds,
together with interest and premium, if any, thereon, are
fully met and discharged; PROVIDED that nothing herein
contained shall preclude such limitation or alteration
if and when adequate provision shall be made by law for
the protection of the holders of the Bonds."

Section 31. Title 58 of the Code of the Federated States of
Micronesia is hereby created by adding a new section 564 of
subchapter VI of chapter 5 to read as follows:

"Section 564. Waiver of sovereign immunity. The FSM
waives, for the benefit of the holders of the Bonds,
the Trustee acting on their behalf, or the provider
of any Credit Enhancement, its sovereign immunity from
suit before the Federal court of the United States in
the district in which the principal office of the
Trustee is located in any action brought by the holders of the Bonds, the Trustee acting on their behalf, or such provider of Credit Enhancement arising out of the issuance and sale of the Bonds or performance under the Bonds or the Indenture. Except as expressly so waived, nothing in this chapter, including, but not limited to, sections 561 and 564 hereof, is intended to be, nor shall be construed as a waiver, implicit or explicit, of the FSM's sovereign immunity from suit in the courts of the United States of America."

Section 32. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new subchapter V of chapter 6 entitled "Bond Repayment Fund."

Section 33. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new section 623 of subchapter V of chapter 6 to read as follows:

"Section 623. Definitions. As used in this subchapter, these terms shall have the following meanings unless otherwise required by context:

(1) 'Borrowing' means a borrowing authorized by and undertaken pursuant to title 58 of the Code of the Federated States of Micronesia.

(2) 'Resolution' means a resolution relating to the terms of a Borrowing, duly adopted, as may be required or permitted pursuant to title 58 of the Code of the Federated States of Micronesia."
States of Micronesia."

Section 34. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new section 624 of subchapter V of chapter 6 to read as follows:

"Section 624. Establishment. There is hereby created and established the Bond Repayment Fund, separate from the General Fund of the Federated States of Micronesia and all other funds."

Section 35. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new section 625 of subchapter V of chapter 6 to read as follows:

"Section 625. Purpose. The purpose of the Bond Repayment Fund is to provide for the deposit and disbursement of funds pledged by a State government and/or the National Government which participates in a Borrowing."

Section 36. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new section 626 of subchapter V of chapter 6 to read as follows:

"Section 626. Sub-funds established. When a Borrowing is contemplated, a new sub-fund within the Bond Repayment Fund may be established by Resolution."

Section 37. Title 55 of the Code of the Federated States of Micronesia is hereby further amended by adding a new section 627 of subchapter V of chapter 6 to read as follows:

"Section 627. Deposits. All funds pledged by and received
from a State government or from the National Government for
the purpose of securing its financial obligations related to
or resulting from a Borrowing shall be deposited into the
sub-fund of the Bond Repayment Fund established in
connection with that Borrowing. Any unexpended moneys in a
sub-fund of the Bond Repayment Fund shall not revert to the
General Fund at the end of the fiscal year."

Section 38. Title 55 of the Code of the Federated States of
Micronesia is hereby further amended by adding a new section 628 of
subchapter V of chapter 6 to read as follows:

"Section 628. Disbursements. The moneys deposited into
a sub-fund of the Bond Repayment Fund established in
connection with a Borrowing shall be available for
disbursement, pursuant to the terms of the Resolution
setting forth the terms of the Borrowing, and of any and all
other agreements relating to the Borrowing to which the
National Government is a party. All such disbursements
shall be without additional appropriation from such sub-fund
to satisfy all financial obligations related to or resulting
from the Borrowing."

Section 39. Title 55 of the Code of the Federated States of
Micronesia is hereby further amended by adding a new section 629 of
subchapter V of chapter 6 to read as follows:

"Section 629. Administration. The Bond Repayment Fund and
each sub-fund therein shall be administered by the Secretary
1 of Finance or his designee, who shall establish regulations
2 and procedures necessary and appropriate for the
3 effectuation and implementation of the provisions of this
4 subchapter, pursuant to chapter 1 of title 17 of the Code of
5 the Federated States of Micronesia.
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7 Section 40. This act shall become law upon approval by the
8 President of the Federated States of Micronesia or upon its becoming
9 law without such approval.

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January 16, 1989

John R. Hagelgamm
President
Federated States of Micronesia

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FSM CONGRESS
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