

A BILL FOR AN ACT

To entitle title 58 of the Code of the Federated States of Micronesia; to further amend title 58 of the Code of the Federated States of Micronesia, as established by Public Law No. 5-121 and amended by Public Laws Nos. 5-136 and 6-32, by creating a new chapter 1 for the purpose of authorizing the establishment of a National convertible savings bond program; to further amend title 55 of the Code of the Federated States of Micronesia, as amended, by adding new sections 665, 666, 667 and 668 for the purpose of establishing a fund for repayment of such bonds; to appropriate the sum of \$140,000 from the General Fund of the Federated States of Micronesia for the fiscal year ending September 30, 1994 to fund the Convertible Savings Bond Repayment Fund; and for other purposes.

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

1 Section 1. Title 58 of the Code of the Federated States of
2 Micronesia is hereby entitled "Government Borrowing."

3 Section 2. Chapter 1 of title 58 of the Code of the
4 Federated States of Micronesia is hereby created and entitled
5 "Convertible Savings Bonds."

6 Section 3. Title 58 of the Code of the Federated States of
7 Micronesia is hereby further amended by adding a new section 101
8 of chapter 1 to read as follows:

9 "Section 101. Short title. This chapter shall be known
10 as the 'Convertible Savings Bond Act.' Alternatively,
11 this chapter may be known as the 'Micro-Savers Act' for
12 so long as the term 'Micro-Saver' is protected under
13 section 117 of this chapter."

14 Section 4. Title 58 of the Code of the Federated States of
15 Micronesia is hereby further amended by adding a new section 102
16 of chapter 1 to read as follows:

17 "Section 102. Definitions. As used in this chapter,
18 terms shall have the following meanings, unless
19 otherwise required by the context:

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

23 (2) 'Bondholder' means any person who from time to
24 time holds any bond;

25 (3) 'Congress' means the Congress of the Federated

1 States of Micronesia;

2 (4) 'Conversion' means the satisfaction of the
3 indebtedness represented by a bond through the delivery
4 of stock or of stock and cash, as provided in section
5 106 hereof, in the designated company for the bond
6 series of which that bond is a part;

7 (5) 'Conversion ratio' shall have the meaning
8 provided in section 106(1) hereof;

9 (6) 'Designated Company' shall have the meaning
10 provided in section 106(1) hereof;

11 (7) 'Paid,' 'pay,' 'payment' and words of similar
12 import, when used with respect to bonds, mean the
13 satisfaction of the indebtedness represented by a bond
14 through either conversion or redemption;

15 (8) 'Redemption' and 'cash redemption' mean the
16 satisfaction of the indebtedness represented by a bond
17 through the delivery of cash equal to the principal face
18 value or denomination of the bond plus any accrued
19 interest.

20 (9) 'FSM' means the National Government of the
21 Federated States of Micronesia;

22 (10) 'Resolution' means the resolution of the
23 Congress authorizing the issuance and sale of a series
24 of bonds on the terms and conditions prescribed therein;
25 and

1 (11) 'Secretary' means the Secretary of Finance of
2 the Federated States of Micronesia."

3 Section 5. Title 58 of the Code of the Federated States of
4 Micronesia is hereby further amended by adding a new section 103
5 of chapter 1 to read as follows:

6 "Section 103. Purpose. The purpose of this chapter is
7 to authorize borrowing by the FSM for its benefit and as
8 a method of mobilizing savings and encouraging
9 investment in private enterprise by citizens of the
10 Federated States of Micronesia in order to further the
11 economic development of the Nation."

12 Section 6. Title 58 of the Code of the Federated States of
13 Micronesia is hereby further amended by adding a new section 104
14 of chapter 1 to read as follows:

15 "Section 104. Authority to issue. The FSM is hereby
16 authorized to issue bonds in one or more series. The
17 terms of the first series are specified in section 114
18 of this chapter. The terms of any subsequent series
19 shall be as specified in the resolution of Congress
20 authorizing that series. Except for the first series,
21 no series of bonds shall be issued hereunder without a
22 specific resolution of Congress."

23 Section 7. Title 58 of the Code of the Federated States of
24 Micronesia is hereby further amended by adding a new section 105
25 of chapter 1 to read as follows:

1 "Section 105. Sale of bonds.

2 (1) Initial sale of bonds by or for the FSM shall
3 be at a price equal to the principal face value of the
4 bonds, without premium or discount. Thereafter, the
5 bonds may be freely traded at any price.

6 (2) Initial sale of bonds by or for the FSM shall
7 be conducted exclusively within the Federated States of
8 Micronesia, although anyone may be a purchaser.
9 Thereafter, the bonds may be freely traded anywhere else
10 to the extent and in the manner permitted by applicable
11 law, but no official of the FSM shall have the authority
12 or obligation to register the bonds or otherwise to
13 promote or facilitate the creation of any market for the
14 bonds outside the FSM except as Congress may hereafter
15 direct by legislation amending or referring to this
16 section.

17 (3) The FSM shall sell bonds in such a way as to
18 encourage sales to a large and broad-based group of
19 purchasers within all States of the Federated States of
20 Micronesia. A variety of bond denominations, with the
21 lowest being \$25, shall be available."

22 Section 8. Title 58 of the Code of the Federated States of
23 Micronesia is hereby further amended by adding a new section 106
24 of chapter 1 to read as follows:

25 "Section 106. Convertibility.

1 (1) Each series of bonds shall be associated with
2 stock of one specific corporation (the 'designated
3 company') chartered in or doing substantial business in
4 the FSM. Anytime during (but not after) its term that a
5 bond may be redeemed for cash, it may also, at the
6 option of its holder and as an alternative to cash
7 redemption, be converted to a number of shares of such
8 stock which bear a stated relationship to the principal
9 face amount of the bond. The stated relationship,
10 sometimes referred to as the 'conversion ratio,' shall
11 be determined at the time that bond series is issued,
12 stated on each bond, and, subject to section 108(2) of
13 this act, remain fixed throughout the term of the bond.

14 (2) Notwithstanding subsection (1) of this section,
15 bonds may only be converted in lots of 100 shares or
16 some integral multiple thereof, unless Congress shall
17 specify otherwise with respect to any series in the
18 resolution related to that series. For example, assume
19 a conversion ratio of 100 shares per \$1,000 of bond face
20 value and the simultaneous presentation for payment of
21 one or more bonds. If the aggregate face value of the
22 bonds presented is more than \$1,000, but less than
23 \$2,000, the first \$1,000 of bonds may be converted to
24 100 shares or redeemed, at the option of the holder, but
25 the remaining bonds may only be redeemed. If the

1 aggregate is over \$2,000 but less than \$3,000, the first
2 \$2,000 of bonds may be converted to 200 shares or
3 redeemed (or the first \$1,000 may be converted and the
4 second \$1,000 redeemed), but the remaining bonds may
5 only be redeemed.

6 (3) A conversion ratio may be set at any level and
7 shall not be deemed to represent current or projected
8 future value of the stock or the FSM's estimate or
9 judgment with respect to same."

10 Section 9. Title 58 of the Code of the Federated States of
11 Micronesia is hereby further amended by adding a new section 107
12 of chapter 1 to read as follows:

13 "Section 107. Full faith and credit. With respect to
14 the option of cash redemption, the bonds shall be backed
15 by the full faith and credit of the FSM."

16 Section 10. Title 58 of the Code of the Federated States of
17 Micronesia is hereby further amended by adding a new section 108
18 of chapter 1 to read as follows:

19 "Section 108. Stock ownership.

20 (1) When any series of bonds is issued and
21 thereafter until the entire series is fully paid
22 (whether by cash redemption or conversion) or until
23 conversion of outstanding bonds is no longer permitted,
24 the FSM shall own and continue to own sufficient stock
25 in the designated company to meet a 100 percent

1 conversion of all bonds outstanding from time to time.

2 (2) Subsection (1) shall not be violated if the

3 stock in the designated company ceases to exist as a

4 result of a stock split, the company's failure,

5 dissolution, merger, or consolidation, or otherwise.

6 If, however, substitute securities are issued in lieu of

7 the stocks originally held by the FSM, the substitute

8 securities shall become subject to the conversion rights

9 of bondholders in such a manner and at such a conversion

10 ratio as the Secretary determines to be equitable.

11 (3) While it holds stock (including substitute

12 securities) in a designated company, the FSM shall be

13 entitled to exercise its voting and other rights as a

14 shareholder in its sole and unrettered discretion.

15 Under no circumstances shall the FSM have any liability

16 to any bondholder with respect to the solvency, stock

17 value, continued existence, or other performance

18 attributes of the designated company. A bondholder's

19 sole remedy in the event of loss or diminished value of

20 the bondholder's conversion right, for whatever reason,

21 shall be redemption of the bond for cash."

22 Section 11. Title 58 of the Code of the Federated States of

23 Micronesia is hereby further amended by adding a new section 109

24 of chapter 1 to read as follows:

25 "Section 109. Required contents of bond resolution.

1 The resolution of Congress required for issuance of any
2 new series of bonds shall, at a minimum, specify the
3 following:

4 (1) The size of the issue;

5 (2) The term of the bonds;

6 (3) The interest rate of the bonds;

7 (4) The name of the designated company;

8 (5) The class of stock in the designated company

9 (if it has more than one class) which is to be available
10 upon conversion of the bonds; and

11 (6) The conversion ratio."

12 Section 12. Title 58 of the Code of the Federated States of
13 Micronesia is hereby further amended by adding a new section 110
14 of chapter 1 to read as follows:

15 "Section 110. Optional contents of bond resolution.

16 The resolution of Congress required for issuance of any
17 new series of bonds may also contain such other
18 provisions as are not inconsistent with this act.

19 Unless otherwise provided in the resolution:

20 (1) Bond denominations (purchase price and
21 principal face value) shall be \$25, \$50, \$100, \$500, and
22 \$1,000.

23 (2) A bond may be redeemed at any time during or
24 after its term.

25 (3) A bond series shall continue to be offered for

1 sale until it is sold out."

2 Section 13. Title 58 of the Code of the Federated States of
3 Micronesia is hereby further amended by adding a new section 111
4 of chapter 1 to read as follows:

5 "Section 111. Interest; Term.

6 (1) Interest on a bond shall not be currently
7 payable but shall accrue and compound annually from the
8 date on which the term of the bond begins until the
9 earlier of the end of the term or the date on which the
10 bond is paid at such rate or sliding scale of rates as
11 Congress shall specify. No further interest shall
12 accrue after maturity of a bond.

13 (2) The term of any individual bond shall begin on
14 the date it is first sold to the public by or for the
15 FSM, which date shall be indelibly noted on the bond
16 certificate at the time of sale."

17 Section 14. Title 58 of the Code of the Federated States of
18 Micronesia is hereby further amended by adding a new section 112
19 of chapter 1 to read as follows:

20 "Section 112. Tax-exempt. The bonds and the repayment
21 of the principal thereof and interest thereon shall not
22 be subject to any tax, assessment, or levy, now or
23 hereafter imposed, of the FSM or any of its political
24 subdivisions, nor shall the FSM or any of its political
25 subdivisions impose any tax, assessment, or levy upon

1 the sale or disposition of the bonds. The bonds shall
2 be deemed obligations not located within the
3 jurisdiction or legal boundaries of the FSM or any of
4 its political subdivisions for purposes of any National,
5 State, or local taxation, assessment, or levy."

6 Section 15. Title 58 of the Code of the Federated States of
7 Micronesia is hereby further amended by adding a new section 113
8 of chapter 1 to read as follows:

9 "Section 113. Foreign investment permits.

10 (1) Except as otherwise expressly provided in this
11 act, chapter 2 of title 32 of the Code of the Federated
12 States of Micronesia (the Foreign Investment Act) shall
13 apply to designated companies and their owners to the
14 same extent and in the same manner as it would if the
15 ownership that results from this act were to have come
16 about independently of this act. Terms defined in said
17 chapter shall have the same meaning when used in this
18 section.

19 (2) No company shall be a designated company unless
20 and until it either has a valid and current foreign
21 investment permit under the Foreign Investment Act or is
22 exempt (without regard to the extent of noncitizen
23 ownership) from having to obtain such a permit.

24 (3) No bondholder who, upon conversion, would be
25 required under the Foreign Investment Act to obtain,

1 amend, or renew a foreign investment permit as a result
2 of his new stock ownership in a designated company,
3 shall convert or attempt to convert his bond unless and
4 until the bondholder has so obtained, amended, or
5 renewed the foreign investment permit. With respect to
6 any stock obtained in violation of this subsection, for
7 so long as the violator owns the stock and has not
8 complied with the Foreign Investment Act, either the FSM
9 or the designated company (whichever acts first) shall
10 have an option to purchase such stock at the lower of
11 the price paid for it by the violator (namely, the
12 principal face value of the bond or bonds converted to
13 the stock) or the fair market value of the stock at the
14 time the purchase option is exercised."

15 Section 16. Title 58 of the Code of the Federated States of
16 Micronesia is hereby further amended by adding a new section 114
17 of chapter 1 to read as follows:

18 "Section 114. First bond series. The first series of
19 bonds under this act is hereby authorized to be issued
20 with the following terms:

21 (1) Issue size: \$3,000,000.

22 (2) Bond term: 7 years.

23 (3) Interest rate: 7 percent if the bond is held
24 the full term; 6 percent if the bond is presented for
25 payment before the full term but on or after the sixth

1 anniversary of the commencement of its term; 5 percent
2 if the bond is presented for payment before the sixth,
3 but on or after the fifth such anniversary; and 4
4 percent if the bond is presented for payment before the
5 fifth such anniversary.

6 (4) Designated company: Bank of the Federated
7 States of Micronesia, an FSM corporation.

8 (5) Stock class: common (sole class).

9 (6) Conversion ratio: 100 shares per \$1,000."

10 Section 17. Title 58 of the Code of the Federated States of
11 Micronesia is hereby further amended by adding a new section 115
12 of chapter 1 to read as follows:

13 "Section 115. Regulations. The Secretary is authorized
14 to promulgate regulations implementing this act and any
15 bond resolutions passed pursuant to this act to the
16 extent not inconsistent with this act."

17 Section 18. Title 58 of the Code of the Federated States of
18 Micronesia is hereby further amended by adding a new section 116
19 of chapter 1 to read as follows:

20 "Section 116. Bond proceeds. Proceeds of the sale of
21 bonds shall be deposited in the Convertible Savings Bond
22 Repayment Fund provided for in subchapter X of chapter 6
23 of title 55 of the Code of the Federated States of
24 Micronesia."

25 Section 19. Title 58 of the Code of the Federated States of

1 Micronesia is hereby further amended by adding a new section 117
2 of chapter 1 to read as follows:

3 "Section 117. Protected name.

4 (1) The bonds to be issued pursuant to this chapter
5 may be referred to as 'Micro-Savers' or by such other
6 name as the Secretary may from time to time prescribe.
7 It shall be unlawful for any person to use the term
8 'Micro-Savers' in reference to any other security,
9 product, service, enterprise, or business activity from
10 and after October 31, 1992, until the earliest to occur
11 of the following events:

12 (a) The Secretary officially announces
13 abandonment of the term 'Micro-Savers';

14 (b) One year has elapsed since the effective
15 date of this act without any bonds being issued pursuant
16 to this act; and

17 (c) One year has elapsed since the last of all
18 bonds ever issued pursuant to this act has been paid or
19 converted.

20 (2) Any person who violates subsection (1) of this
21 section is an infringer and shall be liable:

22 (a) To an injunction restraining such
23 infringement;

24 (b) To pay the FSM its actual damages suffered
25 as a result of the infringement and any profits of the

1 infringer that are attributable to the infringement and
2 are not taken into account in computing the actual
3 damages; and

4 (c) To pay the FSM its reasonable costs,
5 including attorneys' fees, incurred in enforcing and
6 collecting any judgment entered pursuant to this
7 subsection.

8 (3) Any person who infringes willfully and for the
9 purpose of commercial advantage or private gain shall be
10 fined up to \$10,000 or imprisoned for up to 1 year, or
11 both.

12 (4) When a person is convicted under subsection (3)
13 of this section, the court, in its judgment of
14 conviction, in addition to the penalty therein
15 prescribed, may order the forfeiture and destruction or
16 other disposition of all infringing materials or devices
17 used in the manufacture of infringing materials."

18 Section 20. Title 55 of the Code of the Federated States of
19 Micronesia is hereby further amended by adding a new subchapter
20 X entitled "Convertible Savings Bond Repayment Fund."

21 Section 21. Title 55 of the Code of the Federated States of
22 Micronesia is hereby further amended by adding a new section 665
23 to subchapter X of chapter 6 to read as follows:

24 "Section 665. Establishment. There is hereby created
25 and established the Convertible Savings Bond Repayment

1 Fund, hereinafter referred to as the 'Fund,' separate
2 from the General Fund of the Federated States of
3 Micronesia and all other funds."

4 Section 22. Title 55 of the Code of the Federated States of
5 Micronesia is hereby further amended by adding a new section 666
6 to subchapter X of chapter 6 to read as follows:

7 "Section 666. Purpose; Definitions.

8 (1) The purpose of the Fund is to pay certain costs
9 of the Convertible Savings Bond program established in
10 chapter 1 of title 58 of the Code of the Federated
11 States of Micronesia, and reasonably to assure the
12 repayment of those bonds if and when they are redeemed.

13 (2) Defined terms in said chapter 1 of title 58 of
14 this Code shall have the same meanings in subchapter
15 VI."

16 Section 23. Title 55 of the Code of the Federated States of
17 Micronesia is hereby further amended by adding a new section 667
18 to subchapter X of chapter 6 to read as follows:

19 "Section 667. Disbursements.

20 (1) Money in the Fund may be used, without need for
21 further appropriation, to pay the reasonable expenses of
22 printing bonds, marketing bonds, obtaining legal or
23 other advice, handling redemption or conversion of
24 bonds, and other administration of the bond program if
25 and to the extent that such expenses are not paid or

1 payable under a separate appropriation or from another
2 lawful source.

3 (2) Money in the Fund may be used, without need for
4 further appropriation, to pay the principal and accrued
5 interest on bonds presented for cash redemption.

6 (3) From time to time the Secretary of Finance of
7 the Federated States of Micronesia or the Secretary's
8 designee shall transfer money from the Fund to the
9 General Fund of the Federated States of Micronesia;
10 PROVIDED, however, that no such transfer shall be
11 permitted when the Fund balance is less than, or when
12 the transfer would result in making the Fund balance
13 less than, the sum of:

14 (a) The amount of money that would be required
15 to pay all principal and accrued interest on outstanding
16 bonds of all series if said bonds were all to be
17 presented for cash redemption on the date of the
18 transfer; and

19 (b) The amount of money estimated by the
20 Secretary or the Secretary's designee to be reasonably
21 necessary to pay remaining expenses associated with
22 those outstanding bonds pursuant to subsection (1) of
23 this section."

24 Section 24. Title 55 of the Code of the Federated States of
25 Micronesia is hereby further amended by adding a new section 668

1 to subchapter X of chapter 6 to read as follows:

2 "Section 668. Administration. The Fund shall be
3 administered by the Secretary or the Secretary's
4 designee, who shall establish regulations and procedures
5 necessary and appropriate for the effectuation and
6 implementation of the provisions of this subchapter,
7 pursuant to chapter 1 of title 17 of the Code of the
8 Federated States of Micronesia."

9 Section 24. The sum of \$140,000, or so much thereof as may
10 be necessary, is hereby appropriated from the General Fund of
11 the Federated States of Micronesia for the fiscal year ending
12 September 30, 1994, for the purpose of funding the Convertible
13 Savings Bond Repayment Fund.

14 Section 25. All funds appropriated by this act shall be
15 allotted, managed, administered, and accounted for in accordance
16 with applicable law, including, but not limited to, the
17 Financial Management Act of 1979. The allottee shall be
18 responsible for ensuring that these funds, or so much thereof as
19 may be necessary, are used solely for the purpose specified in
20 this act, and that no obligations are incurred in excess of the
21 sum appropriated. The authority of the allottee to obligate
22 funds appropriated by this act shall not lapse.

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C. B. NO. 8-95

1 Section 26. This act shall become law upon approval by the
2 President of the Federated States of Micronesia or upon its
3 becoming law without such approval.

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5 Date: 6/09/93

Introduced by;

Joseph J. Urusemal
(by request)

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