

AN ACT

To regulate banking business in the Federated States of Micronesia, and for other purposes.

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

1 CHAPTER 1. GENERAL PROVISIONS

2 Section 101. This act shall be known as the "Federated States of
3 Micronesia Bank Act of 1980."

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

7 (1) "Bank" means a stock or mutual corporation or unincorporated
8 association with sufficient capital, authorized by law to receive deposits
9 of money or securities, to open credits, and checking accounts and savings
10 accounts, to make loans, and in general to engage in all kinds of banking
11 transactions; but does not mean a national banking association established
12 by the Federated States of Micronesia. "Bank" includes a savings and loan
13 association but does not include a credit union.

14 (2) "Banking Board" means the board consisting of the Director
15 of Finance, the Director of Resources and Development of the Federated
16 States of Micronesia, and one member of the Congress of the Federated States
17 of Micronesia appointed by the Speaker of the Congress established pursuant
18 to Section 201 of this act.

19 (3) "Branch" means an office of a bank at which deposits are
20 received or checks paid or money lent.

21 (4) "Director" means the Director of Finance of the Federated
22 States of Micronesia.

1 (5) "Demand Deposit" means any deposit which is repayable by its
2 terms not more than 3 days after the time it is made.

3 (6) "Deposits" means money or other property transferred or
4 assigned to any person pursuant to an agreement, expressed or implied, that
5 the person shall repay such moneys upon demand (whether in person or by
6 written order) or after a fixed or determinable period of time, provided,
7 however, that money loaned to a bank which is to be repaid not sooner than
8 five years from the date of the loan, and pursuant to a loan agreement under
9 which the obligation to repay is subordinate to the rights of depositors,
10 shall not be deemed to be a deposit; and provided further that money trans-
11 ferred to a credit union as a purchase of its shares shall not be deemed to
12 be a deposit.

13 (7) "Domestic Bank" means a bank organized under the provisions
14 of Chapter 3 of this act.

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

20 (9) "Legal reserve" means the sum which every bank and foreign
21 bank shall at all times have available for the payment of their deposit
22 liabilities pursuant to the provisions of this act.

23 (10) "Paid in capital, surplus, and undistributed profits" means,
24 in the case of a foreign bank, the aggregate paid in capital, surplus, and
25 undistributed profits of such bank and not merely that allocated to, located

1 in, or arising out of its operations in the Federated States of Micronesia.

2 (11) "Person" includes individuals, corporations, partnerships
3 and any other business entity.

4 (12) "Public Auditor" means the Public Auditor appointed by the
5 President of the Federated States of Micronesia with the advice and consent
6 of the Congress pursuant to the Constitution.

7 (13) "Registrar of Corporations" means the Registrar of Corpora-
8 tions of the National Government of the Federated States of Micronesia.

9 (14) "Related Person", with respect to any person, means his
10 spouse, child, parent, brothers or sisters, or any partnership, corporation
11 or firm in which he owns more than a 10% interest.

12 Section 103. Application of act. This act shall apply to and govern
13 all banks operating a branch or office in the Federated States of Micronesia;
14 and any bank now existing and operating a branch or office in the Federated
15 States of Micronesia shall hereafter be operated in accordance with the
16 provisions of this act, and shall be required to obtain a license pursuant
17 to Chapter 5 of this act on or before the 31st day of December following the
18 effective date of this act.

19 Section 104. Requirements for banking business. No person shall engage
20 in the business of accepting deposits in the Federated States of Micronesia
21 or shall use the term "bank" or "savings and loan associations" or any form
22 thereof in the conduct of its business unless it has been granted a license
23 pursuant to the provision of this act and such license has not expired and
24 has not been cancelled. Any person holding such a license shall engage in no
25 business in the Federated States of Micronesia other than the banking

1 business and shall engage in such business only at the locations authorized
2 by the Banking Board.

3 Section 105. Application to existing charters, articles of incorpora-
4 tion, or bylaws. Domestic and foreign banks shall be subject to the
5 applicable provisions of their existing charters, articles of incorporation,
6 or bylaws only to the extent that such are compatible and do not conflict
7 with the provisions of this act; and in the event of any conflict or
8 incompatibility between this act and provisions of said charter, articles of
9 incorporation, or bylaws with respect to any domestic or foreign bank, the
10 provisions of this act shall prevail.

11 CHAPTER 2. BANKING BOARD

12 Section 201. Creation. There is hereby established a Banking Board
13 which shall consist of the following: the Director of Resources and Develop-
14 ment, the Director of Finance of the Federated States of Micronesia, and one
15 member of the Congress of the Federated States of Micronesia appointed by the
16 Speaker of the Congress. The Director of Finance shall act as the Chairman
17 of the Banking Board and its chief executive.

18 Section 202. Powers. The Banking Board and the Director shall have the
19 powers conferred upon them by this act.

20 Section 203. Meetings, Quorum Majority. The Banking Board shall have
21 regular meetings at such times and places as the members thereof shall fix
22 and, in addition, it may have special meetings upon at least twenty four
23 hours' notice upon call by any member thereof. A majority of the Board shall
24 constitute a quorum.

25 Section 204. Services of Public Auditor and Others. The Banking Board

1 and the Director shall be entitled to utilize the services of the Public
2 Auditor and such independent accountants, lawyers and other experts as they
3 may select in carrying out their powers and duties under this act. The
4 President of the Federated States of Micronesia shall provide such adminis-
5 trative support and staff as may be needed to conduct the business of the
6 Banking Board.

7 Section 205. Court Review. Any person aggrieved by an order of the
8 Banking Board may appeal to the Trial Division of the Supreme Court of the
9 Federated States of Micronesia or, if the Supreme Court has not yet
10 commenced its operations, to the Trial Division of the High Court of the
11 Trust Territory of the Pacific Islands, within 30 days after the issuance
12 of the order. The filing of such appeal shall not stay enforcement of an
13 order but the Court may order a stay upon such terms as it deems proper.

14 CHAPTER 3. ORGANIZATION AND ESTABLISHMENT OF DOMESTIC BANKS

15 Section 301. Incorporation.

16 (1) Any five or more persons of sufficient legal capacity may
17 organize a domestic bank, but for said purpose they shall first apply in
18 writing for a permit from the Banking Board. Said application shall set
19 forth and prove the need of the services of a banking institution in the
20 locality wherein the bank is sought to be established, and that the
21 services rendered by other banking institutions do not answer the needs of
22 said locality.

23 (2) It shall be the duty of the Director, immediately after the
24 Banking Board receives an application for a permit, to make whatever
25 investigations and hold such hearings as he deems may be necessary as to:

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

3 (b) whether such ability and experience are sufficient to
4 warrant the efficient functioning and operation of the bank;

5 (c) whether local need justifies the application;

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

9 (e) whether the bank shall be of benefit to the general
10 public; and

11 (f) the capital which the bank has available for its opera-
12 tions.

13 (3) The Banking Board may issue the permit applied for if, in its
14 judgment, the results of the investigations are satisfactory. Any permit
15 may be granted subject to such conditions as the Banking Board, in its
16 discretion, deems necessary to protect the interests of the people of the
17 Federated States of Micronesia.

18 (4) The articles of incorporation must be subscribed by each of
19 the incorporators and duly sworn to before a notary public. They shall
20 specifically state:

21 (a) the name by which such bank is to be known;

22 (b) the state where its main office is to be established,
23 which shall be its legal domicile;

24 (c) the amount of the authorized capital stock, the number
25 of shares into which the same is divided, and if they have a par value, the

1 par value of each share;

2 (d) the term of duration of the bank;

3 (e) the transactions to which the capital of the bank is to
4 be preferably devoted;

5 (f) the time and manner of calling and holding regular
6 meetings of stockholders, and the reasons and circumstances for, and manner
7 of, calling and holding special meetings;

8 (g) the manner of constituting a quorum at the regular and
9 special meetings of the stockholders;

10 (h) the names and places of residence of the incorporators
11 and the number of shares subscribed by each;

12 (i) the number of directors of the bank, which shall not be
13 less than five, and not less than two-thirds of the total number of whom
14 shall be citizens of the Federated States of Micronesia and shall have
15 resided in the Federated States of Micronesia for at least one year prior to
16 the date of the application; the manner of their election, their terms of
17 office, and the number necessary to constitute a quorum; and

18 (j) any other articles which the incorporators may deem it
19 advisable to insert for the regulation of the business and the conduct of
20 the affairs of the bank; provided, that such articles shall not be in
21 conflict with this act, or with any other laws of the Federated States of
22 Micronesia.

23 Section 302. Certificate of incorporation; beginning of corporate
24 existence. Upon subscribing and swearing to the articles of incorporation,
25 as provided in Section 301 of this act, and upon submitting two copies of

1 the same to the Registrar of Corporations together with the permit granted
2 by the Banking Board authorizing the organization of the bank, and upon pay-
3 ment of the proper filing fee, and upon the issuance by the Registrar of
4 Corporations, under his seal, of a certificate stating that the said articles
5 containing the statements required by Section 301 of this act have been
6 filed in his office, the existence of the bank named in the said articles of
7 incorporation shall begin. From and after the date of such filing, said
8 bank shall constitute a body corporate under the name set forth in the said
9 articles. Before such bank may commence business it shall comply with the
10 other requirements of this act and all other applicable provisions of law.

11 Section 303. Commencement of business.

12 (1) Upon the issuance by the Registrar of Corporations of a
13 certificate of incorporation, as provided in Section 302 of this Chapter,
14 the Registrar of Corporations shall so notify the Director and at the same
15 time shall transmit to the Director a duplicate copy of the articles of
16 incorporation.

17 (2) When the duplicate copy is received by the Director, he
18 shall notify the corporation, and the corporation shall then file with
19 the Director a statement of all the facts necessary to enable him to
20 determine whether the bank has in fact complied with all the requirements
21 of law and is lawfully entitled to commence business, such statement to
22 be sworn to by a majority of the directors and by the president or the
23 manager of the bank. Upon receipt of such statement by the Director, he
24 shall examine the condition of the corporation and ascertain specifically
25 the amount of its capital paid in, the names and places of residence of its

1 stockholders, directors and officers, the amount of the capital stock which
2 each owns in good faith, and, generally, whether such corporation has
3 complied with all the provisions of law required to entitle it to a license
4 to engage in the business of banking.

5 (3) If, upon careful examination of the facts so reported, or of
6 any other relevant facts which may come to his knowledge, the Director is
7 satisfied that such bank has complied with all the applicable provisions of
8 this act and other laws required to be complied with before a bank shall be
9 authorized to commence the business of banking, he shall issue an initial
10 license to engage in the banking business, valid until it must be renewed
11 according to Section 501 of this act. The Director may withhold from a
12 bank the license authorizing it to commence business whenever he is satis-
13 fied that the shareholders have organized said bank for any other than the
14 legitimate objects determined by this act. The expenses incurred by the
15 Director in connection with such investigations shall be paid by the cor-
16 poration in conformity with the regulations the Banking Board may promulgate
17 for that purpose.

18 Section 304. Amount and ownership of capital stock. No domestic bank
19 shall be organized and established in the Federated States of Micronesia
20 with a capital stock less than \$1,000,000 all of which shall be paid in
21 cash before the bank shall be authorized to commence business and at least
22 two-thirds of which shall be owned by persons who are citizens of the
23 Federated States of Micronesia and shall have resided in the Federated
24 States of Micronesia for at least one year prior to the application.

25 Section 305. Amendment of articles of incorporation. Every bank

1 organized under this act may amend its articles of incorporation with the
2 approval of the Banking Board for any lawful purposes; provided that no
3 amendment may contain a provision which it would not have been lawful and
4 proper to insert in the original articles of incorporation, and provided
5 further that no change shall be made in the articles of incorporation by
6 which the rights or security of the existing depositors or creditors of the
7 bank shall be impaired.

8 CHAPTER 4. FOREIGN BANKS

9 Section 401. Establishment in the Federated States of Micronesia.

10 (1) Upon compliance with the provisions of this Chapter, any
11 foreign bank having a paid in capital, surplus and undivided profits of not
12 less than \$20,000,000 (except \$1,000,000 for any bank the deposits of which
13 in the Federated States of Micronesia are insured by the Federal Deposit
14 Insurance Corporation or the Federal Savings and Loan Insurance Corporation
15 of the United States) may establish offices or branches in the Federated
16 States of Micronesia; provided, that, before beginning its operations in the
17 Federated States of Micronesia, it files in the Office of the Registrar of
18 Corporations a duly authenticated copy of its charter or articles of incor-
19 poration, together with a resolution of its board of directors approving the
20 establishment of such office or branch in the Federated States of Micronesia,
21 and a statement verified by oath of the president, manager, agent, cashier, or
22 or other authorized officer of said bank, showing:

23 (a) the name of such foreign bank;

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

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- 1 (c) the objects of its business;
- 2 (d) the amount of its authorized capital;
- 3 (e) the amount of its capital stock actually paid in cash;
- 4 (f) the amount of the assets of the bank, and of what they
- 5 consist;
- 6 (g) an itemized statement of the liabilities of the bank;
- 7 (h) the amount of investment to be devoted to its business
- 8 in the Federated States of Micronesia, which in no case shall be less than
- 9 \$100,000; and
- 10 (i) the names and post office addresses of the chief executive
- 11 officer in the home bank and all officers in the Federated States of Micro-
- 12 nesia, if any, and the time, if any, when the term of office of each expires.

13 Section 402. Investigation by Director; permit required.

14 (1) No foreign bank may open any branch or office or change the

15 location of any branch or office in the Federated States of Micronesia with-

16 out a permit to do so from the Banking Board. An application to the Banking

17 Board for such permit shall state the benefit to the public expected to

18 result from the granting of the permit applied for. The Banking Board, upon

19 receipt of such application, may require the submittal of such additional

20 information as may be necessary in order for it to make the necessary

21 investigations.

22 (2) It shall be the duty of the Director, immediately after the

23 Banking Board receives an application for a permit, to make whatever investi-

24 gations may be necessary as to:

25 (a) the overall financial condition of the applicant;

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

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

6 (d) whether the bank shall be of benefit to the general
7 public; and

8 (e) the investment which the bank has made or has available
9 for its operations in the Federated States of Micronesia.

10 (3) The Banking Board may issue the permit applied for if, in its
11 judgment, the results of the investigations are satisfactory; provided, that
12 the decision of the Banking Board shall be final; and provided further, that
13 all expenses incurred by the Banking Board in connection with such investiga-
14 tions shall be paid by the applicant in conformity with regulations which the
15 Banking Board may make.

16 (4) Upon the issuance of a permit to an applicant, the Banking
17 Board shall forthwith transmit a certified copy thereof to the Registrar of
18 Corporations who shall file it along with such other documents submitted to
19 him.

20 Section 403. Commencement of business.

21 (1) When the permit of the Banking Board is received by the
22 foreign bank, as provided in Section 402, it shall proceed to comply with
23 all applicable provisions of law so as to place it in readiness to commence
24 operations upon issuance to it of the license provided by Section 501 of
25 this act. When such foreign bank is in such position of readiness, it shall

1 notify the Director by means of a statement of all facts necessary to enable
2 the Director to determine whether such foreign bank has, in fact, complied
3 with all the requirements of law and is lawfully entitled to commence opera-
4 tions, such statement to be sworn to by a majority of the directors or by
5 the president or manager of such foreign bank.

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

10 (3) If, upon a careful examination of the facts so reported or any
11 other relevant facts which may come to his knowledge, he is satisfied that
12 the foreign bank has complied with all of the provisions of this act required
13 before a foreign bank shall be authorized to open or operate a branch or
14 office in the Federated States of Micronesia, the Director shall issue an
15 initial license to engage in the banking business valid until it must be
16 renewed according to Section 501 of this act. The Director may withhold from
17 a foreign bank the license authorizing it to commence operations whenever he
18 is satisfied that the foreign bank seeks to operate in the Federated States
19 of Micronesia for any other than the legitimate objects determined by this
20 act. The expense incurred by the Director in connection with such investiga-
21 tion shall be paid by the foreign bank in conformity with regulations which
22 the Banking Board may make and issue for that purpose.

23 (4) Before commencing business in the Federated States of Micro-
24 nesia, a foreign bank shall file with the Banking Board an appointment of the
25 Director as its agent upon whom all process in any action or proceeding

1 against it arising out of the operations or activities of its office or
2 offices in the Federated States of Micronesia may be served, which appoint-
3 ment shall be by its terms perpetual and irrevocable.

4 CHAPTER 5. LICENSING OF BANKS

5 Section 501. Annual licenses for banks.

6 (1) The Banking Board shall issue licenses to engage in banking.

7 (2) Initial licenses shall be issued to banks authorized to
8 commence business pursuant to Section 303 or Section 304 of this act for the
9 remainder of the calendar year. Every domestic or foreign bank at present
10 operating a branch or office in the Federated States of Micronesia, or that
11 may hereafter do so, shall obtain on or before the 31st day of December of
12 each calendar year a renewal license to operate an office or branch in the
13 Federated States of Micronesia during the succeeding calendar year. Initial
14 and renewal licenses shall be issued upon payment of the corresponding fees,
15 as follows:

16 (a) Banks with a paid-in capital, surplus and undivided
17 profits aggregating \$1,000,000 shall pay the sum of \$500.

18 (b) Banks with a paid-in capital, surplus and undivided
19 profits aggregating over \$1,000,000 shall pay the sum of \$1,000.

20 (3) The Banking Board shall grant a grace period not exceeding
21 30 days, during which an existing license may be continued in effect after
22 the 31st day of December, to any domestic bank or foreign bank which shows
23 good cause thereafter to the Banking Board, when the Banking Board considers
24 such action to be in the public interest.

25 (4) The Banking Board, in determining whether to issue an annual

1 license to engage in the business of banking, shall consider and determine
2 whether the bank applying for the license has, in its lending and operating
3 practices, served the needs of its community. In determining whether a bank
4 has served the needs of its community, the Banking Board shall, in addition
5 to other factors customarily examined, examine whether (i) such bank has
6 used its best efforts to hire, train and promote citizens and residents of
7 the Federated States of Micronesia for executive positions in the bank, (ii)
8 the loans made by such bank in the Federated States of Micronesia, in view
9 of demand for loans and number of prudent loan opportunities available, bear
10 a reasonable relationship to such bank's deposits in the Federated States of
11 Micronesia and (iii) such bank has abstained from any unfair discrimination
12 among its customers and the people it serves. In making the foregoing deter-
13 mination, due consideration shall be given to the herein stated goals of the
14 Federated States of Micronesia that (i) executive positions in all banks
15 operating in the Federated States of Micronesia should be occupied by citizens
16 and residents of the Federated States of Micronesia, (ii) at least 75% of the
17 total amount of deposits taken by a bank in the Federated States of Micronesia
18 should be loaned to citizens and residents of and business entities located
19 in the Federated States of Micronesia and (iii) no bank should discriminate
20 unfairly among its customers and the people it serves.

21 CHAPTER 6. REGULATION AND SUPERVISION OF DOMESTIC AND FOREIGN BANKS

22 Section 601. Regulation and supervision of banks by Banking Board.

23 (1) All domestic banks and, to the extent of and with respect to
24 business done at any branches established in the Federated States of Micro-
25 nesia, all foreign banks doing business in the Federated States of Micronesia,

1 shall be regulated and supervised by the Banking Board in such manner as to
2 secure the safe and sound conduct of such business, to prevent unsound prac-
3 tices, and to maintain the public confidence in such business and protect the
4 public interest and the interests of depositors, creditors, and stockholders.

5 (2) For the purpose of effectuating the policy declared in this
6 section, the Banking Board, with the approval of the President of the Federated
7 States of Micronesia, may adopt regulations consistent with law and sound
8 banking practice. Such regulations shall be brought to the attention of those
9 affected thereby in the manner that the Banking Board may prescribe.

10 Section 602. Examination of banks.

11 (1) The Director may examine, or cause to be examined, every domestic
12 or foreign bank for the purpose of ascertaining whether it has complied with
13 this act and other applicable laws and for such other purposes and such other
14 matters as the Banking Board may prescribe. The Director and every examiner
15 appointed by him may administer an oath to any person whose testimony may be
16 required on the examination of any bank and summon and compel the appearance
17 and attendance of any person for the purpose of the examination.

18 (2) As an examination fee, each bank so examined shall pay the
19 total cost of such examination, and the sum so paid shall be covered into the
20 General Fund of the Federated States of Micronesia.

21 Section 603. Reports of banks, penalties.

22 (1) Every domestic or foreign bank shall make at least one report
23 of its condition each year to the Director within 90 days after the close of
24 the bank's fiscal year, and according to forms to be prescribed by him, veri-
25 fied by the oath of the chief executive officer or chief financial officer

1 and attesting officer, certifying and subscribing under oath that each of them
2 has personal knowledge of the facts stated therein and that the same are true.
3 Such reports shall exhibit in detail and under appropriate heads the total
4 resources and liabilities of the bank, and, in the case of a foreign bank,
5 shall show separately the resources, liabilities and operations in the Federated
6 States of Micronesia. The Director shall have the right to require that any
7 such reports be audited at the banks expense by independent accountants approved
8 by the Director.

9 (2) The Director may also call for special reports from any domestic
10 or foreign bank whenever in his judgment the same are necessary in order to
11 obtain full knowledge of its condition. During the first five years of opera-
12 tions in the Federated States of Micronesia by any domestic bank, the Director
13 shall call for special reports of its condition not less frequently than each
14 calendar quarter.

15 (3) Whoever willfully makes any false entry in any book, report or
16 statement of a bank or certifies and subscribes to any report required by this
17 section which is false in any material respect shall be fined not more than
18 \$1,000 or imprisoned for not more than one year, or both.

19 (4) Any bank which fails to make, transmit, and publish any report
20 required under this section shall be subject to a fine of \$100 per day for each
21 day's delay after the period specified in this section.

22 Section 604. Alternative Examination and Reports. The Director may
23 accept, in lieu of the examination required or authorized by Section 602 of
24 this act, the most current examination made by the Federal Deposit Insurance
25 Corporation, the Board of Governors of the Federal Reserve System, or a Federal

1 Reserve Bank or in case of a foreign bank not examined by such agencies, an
2 examination acceptable by the appropriate government agency in the home juris-
3 diction of that bank. The Director may accept, in lieu of any report of condi-
4 tion which may be required by Section 603, a report of condition obtained by
5 said Corporation, Board of Governors, Federal Reserve Bank, or government
6 agency.

7 Section 605. Legal reserve.

8 (1) (a) Subject to such additional requirements as the Banking
9 Board may impose, every domestic bank shall maintain a legal reserve which
10 shall not be less than 20 percent of its demand deposits and not less than 5
11 percent of its other deposits. Said reserve shall consist of United States
12 currency or demand deposits in the name of such bank deposited in another bank
13 approved for such purpose by the Banking Board.

14 (b) The Banking Board may increase or decrease the minimum
15 legal reserve for demand deposits established in this section up to not more
16 than 30 percent or down to not less than 15 percent of the total demand deposits
17 of a domestic bank, when in its judgment the circumstances so require it; but
18 the order increasing or decreasing the minimum legal reserve shall not be
19 effective until 30 days after it is entered; provided, that this time might be
20 extended by the Banking Board.

21 (2) Every foreign bank shall maintain, with respect to its deposits
22 in the Federated States of Micronesia, a legal reserve which shall not be less
23 than, and which shall be subject to the same condition as, the legal reserve
24 requirement imposed in the jurisdiction of its place of incorporation on ~~deposits~~
25 deposits of the foreign bank in that jurisdiction.

1 (3) The Director shall notify any domestic or foreign bank whose
2 legal reserve is less than that required by this act of its obligations to make
3 up the full amount. If such bank fails to do so within a period of 30 days, it
4 may be declared in liquidation by the Banking Board. In such event, the
5 Director shall apply to the Trial Division of the Supreme Court of the Federated
6 States of Micronesia for the appointment of a receiver to take charge of and
7 wind up the affairs of such bank and thereafter the matter shall be governed by
8 the provisions of Section 801 (2).

9 Section 606. Limitation on loans.

10 (1) No domestic bank shall permit a person to become indebted or
11 liable to it, either directly or indirectly, in an amount in excess of twenty
12 percent of the aggregate paid-in and unimpaired capital, surplus and undivided
13 profits of the bank. In computing the total liabilities, direct or indirect,
14 of any person to a bank, there shall be included all liabilities to the bank
15 of any related person and any loans made for his benefit or for the benefit
16 of any related person. In computing the total liabilities of any firm, copart-
17 nership or unincorporated association to the bank, there shall be included all
18 liabilities of its individual members and all loans made for the benefit of the
19 copartnership or unincorporated association or any members thereof; and in
20 computing the total liabilities of any corporation to a bank there shall be
21 included all liabilities of and all loans made for the benefit of the
22 corporation and its majority owned subsidiaries.

23 (2) Except as herein provided, no domestic bank shall make any
24 extension of credit to any of its officers, directors, agents, or employees,
25 or to any related person, either directly or indirectly, except upon the

1 written application of such person or related person stating the line of credit
2 applied for, terms and security, if any, offered therefor to the board of
3 directors or to the loan or executive committee of the board, and then only
4 with the written approval of a majority of the board or a majority of the loan
5 committee of the bank (excluding the person seeking the credit) before the loan
6 is made; and the approval of the loan as allowed by the board or the loan com-
7 mittee of the bank shall be made a part of the minutes of the next directors'
8 meeting of the bank. Loans may be made to any officer, director, agent, or
9 employee of any domestic bank or any related person without such application
10 and approval, in amounts not in excess of \$5,000 in aggregate principal owing
11 by any such individual and related person at any one time.

12 (3) No domestic bank shall make any loan on the security of its own
13 stock or for the purchase of its own stock.

14 (4) Any officer, director, agent, or employee of any bank who know-
15 ingly permits the funds of the bank to be loaned in a dishonest manner or con-
16 trary to this section shall be held responsible in his individual capacity for
17 all damages which the bank, its shareholders, depositors, creditors, or any
18 persons shall have sustained in consequence thereof.

19 Section 607. Prohibited Practices.

20 (1) Any director, officer, or employee of a bank or related person
21 who asks for or receives any commission, money, property or thing of value for
22 his own personal benefit for procuring or assisting in procuring a loan from
23 such bank or for permitting any person to overdraw any account with such bank
24 shall be fined not more than \$1,000 or imprisoned not more than one year, or
25 both.

1 (2) No domestic bank shall invest in the stock of any other corpora-
2 tion, acquire any real estate, except with the approval of the Banking Board
3 for use as its principal office in the Federated States of Micronesia, or
4 pledge any of its assets as security for or guaranty any obligations of others
5 except for the issuance of its letters of credit in connection with the ship-
6 ment of goods.

7 (3) No domestic bank may accept deposits at any time that its paid-
8 in capital, surplus and undivided profits is less than \$500,000 in the aggregate.

9 (4) No domestic bank shall declare any dividend or make any other
10 distribution to its stockholders except (i) out of earnings for the current
11 and next preceding year, or (ii) with the approval of the Banking Board.

12 (5) No person may acquire 25% or more of the stock of a domestic
13 bank without the approval of the Banking Board.

14 (6) No domestic bank may merge or consolidate with, or sell a sub-
15 stantial portion of its assets to, another bank without the approval of the
16 Banking Board.

17 Section 608. Insurance.

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

23 (2) All domestic and foreign banks operating an office or branch in
24 the Federated States of Micronesia shall provide themselves with protection and
25 indemnity against burglary, embezzlement and other similar insurable loss; and

1 if a domestic or foreign bank refuses to comply with this requirement, the
2 Director shall have the right to make arrangements to furnish such protection
3 and indemnity, charging the cost thereof to said bank.

4 Section 609. Interest of government officials in banks; removal;
5 exception.

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

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

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

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

17 (d) be interested in or under obligation to negotiate any
18 loan, obligation, or settlement for another person with such bank or affilii-
19 ated company. Any violation of this subsection by any official or employee
20 referred to herein shall be sufficient cause for his removal from office by
21 the President.

22 (2) Notwithstanding the provisions of subsection (1) of this section,
23 any official or employee referred to in such subsection may own or keep one or
24 more bank accounts, either commercial or savings, and may rent safe deposit
25 boxes in any bank referred to in such subsection and doing business in the

1 Federated States of Micronesia and may obtain a loan from any such bank,
2 foreign bank, or affiliated company; provided, that such official or employee
3 makes full disclosure thereof to the Banking Board and, in the case of each
4 of the members of the Banking Board, he shall make the disclosure to the
5 President of the Federated States of Micronesia.

6 Section 610. Filing fees for banks.

7 (1) Every domestic bank or foreign bank in the Federated States of
8 Micronesia shall, upon filing its articles of incorporation in the Office of
9 the Registrar of Corporations, pay a filing fee of \$50.

10 (2) Every domestic or foreign bank desiring to file in the Office
11 of the Registrar of Corporations articles amendatory or supplementary or a
12 certificate of increase or decrease of capital stock shall pay a fee of \$25.

13 (3) The fee for furnishing a certified copy of any of the documents
14 referred to in the preceding subsections of this section shall be fifty cents
15 per folio, but not less than \$5.

16 (4) All fees required under the provisions of this act shall be
17 paid to the Office of the Registrar of Corporations and shall be accounted
18 for and covered into the General Fund of the Federated States of Micronesia.

19 (5) All fines under this act shall be paid to the Director and
20 shall be accounted for and covered into the General Fund of the Federated
21 States of Micronesia.

22 CHAPTER 7. PENALTIES

23 For any violation of this act or the regulations prescribed pursuant to
24 Subsection (2) of Section 601, the delinquent domestic or foreign bank shall
25 be subject to a fine of not more than \$1,000 for each day that the violation

1 continues and, in the case of a material violation, to the cancellation of
2 its license. Such fine or cancellation shall be imposed by the Banking Board
3 only with the approval of the President of the Federated States of Micronesia
4 and after notice to the delinquent bank and a hearing concerning the alleged
5 violation. In any such case, the Director shall send written notice of his
6 action to the bank affected as quickly as circumstances will allow, and if the
7 cancellation of the bank's license has been decided upon, shall transmit a
8 written order to that effect to the Registrar of Corporations for appropriate
9 action.

10 CHAPTER 8. RECEIVERSHIP AND LIQUIDATION

11 Section 801. Receivership of bank or foreign bank.

12 (1) If, in consequence of an examination or report made by an
13 examiner, or otherwise, the Banking Board should have reason to believe that
14 a bank or foreign bank is not in sound financial condition to continue doing
15 business, or that its affairs are being conducted in such a manner that the
16 public or the persons or entities having securities or funds under its custody
17 are in danger of being defrauded, or if any such bank shall violate its charter
18 or any law relative thereto, or this act in any material respect, or if it
19 becomes insolvent, the Director shall apply to the Trial Division of the
20 Supreme Court of the Federated States of Micronesia, or to the Trial Division
21 of the High Court of the Trust Territory of the Pacific Islands if the Supreme
22 Court has not commenced its functions for the appointment of a receiver to take
23 charge of and wind up the affairs of such bank.

24 (2) If the Court, after hearing all parties concerned, determines
25 that the facts alleged by the Director are supported by the evidence, it shall

1 appoint a receiver. Upon his appointment the receiver shall, under the
2 direction of the Director, take possession of the assets and liabilities,
3 books, records, papers, and files of every description belonging to the bank,
4 and collect all loans, fees, and claims of the bank, and see to the payment of
5 its obligations and debts, and to the necessary expenses of receivership. He
6 shall proceed to liquidate the affairs of the bank as soon as possible, and to
7 this end may sell the personal and real property and other assets of the bank,
8 but subject to the approval of the Director. The receiver shall continue to
9 perform his duties in the manner prescribed herein until the bank or foreign
10 bank is fully liquidated.

11 Section 802. Voluntary Liquidation. Any bank may terminate its business
12 in the Federated States of Micronesia with the approval and under the supervi-
13 sion of the Banking Board in such event. The business and assets of the bank
14 in the Federated States of Micronesia shall be liquidated in an orderly manner
15 so as to fully protect all of the creditors, depositors and stockholders
16 of the bank in the Federated States of Micronesia.

17 CHAPTER 9. EFFECTIVE DATE

18 Upon its becoming law by approval of the President of the Federated States
19 of Micronesia, or upon its becoming law without such approval, this act shall
20 become effective on July 31, 1980.

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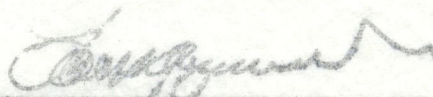
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March 20, 1980



Tosiwo Nakayama
President
Federated States of Micronesia