

A RESOLUTION

Requesting the President of the Federated States of Micronesia to direct the Departments of Economic Affairs and Justice to investigate and report on the ownership, management and operations of Micronesia Longline Fishing Corporation ("MLFC") and requesting the National Public Auditor's Office to perform an audit of the financial affairs of MLFC.

1           WHEREAS, under a series of agreements concluded in December,  
2 1993, the National Government of the Federated States of  
3 Micronesia borrowed \$5 million from the Asian Development Bank  
4 ("ADB"), of which \$4.5 million were, in turn, loaned by the  
5 National Government to Micronesia Longline Fishing Corporation  
6 ("MLFC"); and

7           WHEREAS, under the pertinent loan agreements, MLFC was to  
8 service the ADB loan, but the National Government was to make the  
9 loan payments in the event that MLFC defaulted on its obligations;  
10 and

11           WHEREAS, in addition to assuming said obligations with  
12 respect to the ADB loan, the National Government contributed \$1  
13 million to MLFC in return for a 50% interest in MLFC, in the form  
14 of non-voting shares; and

15           WHEREAS, it was intended that an additional \$1 million in  
16 capital for MLFC would be raised by the sale to private  
17 individuals of voting shares, representing, in the aggregate, 50%  
18 of the ownership of the corporation; and

19           WHEREAS, only approximately \$39,000 in private capital was  
20 raised by the sale of such voting shares and some portion of that

1 amount may have been loaned by the National Government to the  
 2 purchasers; and

3 WHEREAS, the National Government assumed virtually all of the  
 4 financial risk associated with the operations of MLFC, but,  
 5 because it held only non-voting shares, had little or no control  
 6 over said operations; and

7 WHEREAS, MLFC has suffered significant operating losses, has  
 8 defaulted on its obligation to repay the ADB loan and has filed in  
 9 bankruptcy; and

10 WHEREAS, due to the defaults and failures of MLFC, the  
 11 National Government is now obligated to make all payments on the  
 12 ADB loan; and

13 WHEREAS, the management and board of directors of MLFC, at  
 14 some point in time, ceased to perform their respective duties and  
 15 may have thereby breached their fiduciary obligations to the  
 16 shareholders and creditors of MLFC; now, therefore,

17 BE IT RESOLVED by the Fourteenth Congress of the Federated  
 18 States of Micronesia, Second Regular Session, 2005, that the  
 19 Congress hereby requests the President of the Federated States  
 20 of Micronesia to direct the Secretary of Economic Affairs and  
 21 the Secretary of Justice to investigate and report to Congress  
 22 with respect to the circumstances and events surrounding the  
 23 formation, financing, capital structure, management, operations  
 24 and failure of MLFC; and

25 BE IT FURTHER RESOLVED that the Congress hereby requests

1 the Office of the National Public Auditor to perform an audit  
2 of the financial affairs of MLFC from its inception to the date  
3 of its filing in bankruptcy, including but not limited to any  
4 related party transactions, the sources and uses of MLFC's  
5 cash, all compensation received by MLFC's officers and  
6 directors, and the use and disposition of any assets of the  
7 corporation; and

8 BE IT FURTHER RESOLVED that certified copies of this  
9 resolution be transmitted to the President of the Federated  
10 States of Micronesia, the National Public Auditor and the  
11 Governor of each state.

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16 ADOPTED: September 30, 2005

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Peter M. Christian  
Speaker  
FSM Congress

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ATTEST: \_\_\_\_\_  
Liwiana K. Ramon  
Chief Clerk  
FSM Congress