

AN ACT

To further amend title 30 of the Code of the Federated States of Micronesia, as amended, by adding a new chapter 4 to establish Federated States of Micronesia Venture Funds, and for other purposes.

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

1 Section 1. The Code of the Federated States of Micronesia,
2 as amended, is hereby further amended by enacting a new chapter 4
3 to title 30 entitled "Federated States of Micronesia Venture
4 Funds".

5 Section 2. The Code of the Federated States of Micronesia,
6 as amended, is hereby further amended by enacting a new section
7 401 of title 30 to read as follows:

8 "Section 401. Short title. This chapter may be cited
9 as the 'Federated States of Micronesia Venture Funds Act
10 of 2007'."

11 Section 3. The Code of the Federated States of Micronesia,
12 as amended, is hereby further amended by enacting a new section
13 402 of title 30 to read as follows:

14 "Section 402. Purpose. The purpose of this act is to
15 encourage the establishment of Venture Funds in the
16 Federated States of Micronesia, hereinafter referred to
17 as 'FSM', and to provide an incentive for large foreign
18 companies to register Major Corporations in the FSM.
19 The Congress finds it desirable and necessary to promote
20 the continued expansion of the tax base of the nation.

1 The Congress believes that agreeing to invest a portion
2 of large corporate income tax payments by Major
3 Corporations in Venture Funds, to be managed by parents
4 or affiliates of such Major Corporations, would attract
5 large foreign-owned enterprises to more seriously
6 consider registering Major Corporations in the FSM and
7 directing larger amounts of profitable business through
8 such Major Corporations. By requiring that a portion of
9 such Venture Funds be invested in new companies and
10 industries registered in the FSM, the Congress is
11 encouraging the development of 'knowledge industries'
12 that tap into humankind's creative genius in developing
13 new forms of communications, materials, energy, and
14 healthcare. Such new FSM corporations with intellectual
15 property could continue to generate income over the
16 coming years and decades. The government will be able
17 to then tax these incomes, thus expanding the tax base
18 that is needed by the government to provide the services
19 that the citizens and residents of the FSM demand. It
20 is recognized that the nation currently does not have
21 the resources to make investments in these new
22 industries and that a private-public partnership is
23 needed to finance and grow these industries. Therefore,
24 it is in the best interests of the FSM and its people
25 that incentives are provided for Major Corporations to

1 establish professionally managed funds that will
2 consider new business opportunities and make wise
3 investments."

4 Section 4. The Code of the Federated States of Micronesia,
5 as amended, is hereby further amended by enacting a new section
6 403 of title 30 to read as follows:

7 "Section 403. Creation.

8 (1) Any Major Corporation that pays corporate income
9 tax to the FSM exceeding \$50,000,000 in any one calendar
10 year may require that an amount equivalent to up to 30%
11 of the amount of income taxes it paid will be invested
12 by the FSM into a FSM Venture Fund, and the Major
13 Corporation may also select the Fund Manager for this
14 Fund.

15 (2) Any Major Corporation that pays corporate income
16 tax to the FSM exceeding \$80,000,000 in any one calendar
17 year may require that an amount equivalent to up to 48%
18 of the amount of income taxes it paid will be invested
19 by the FSM into a FSM Venture Fund, and that the Major
20 Corporation may also select the Fund Manager for this
21 Fund.

22 (3) Any Major Corporation that pays corporate income
23 tax to the FSM exceeding \$100,000,000 in any one
24 calendar year may require that an amount equivalent to
25 up to 57% of the amount of income taxes it paid will be

1 invested by the FSM into a FSM Venture Fund, and that
2 the Major Corporation may also select the Fund Manager
3 for this Fund.

4 (4) These FSM Venture Funds, hereinafter each referred
5 to as a 'Fund', will invest in new industries that may
6 include software development, development of new drugs,
7 medicines, and medical devices and procedures,
8 entertainment, Internet content and distribution,
9 telecommunication devices and access, high growth
10 technology businesses benefiting from the rapid adoption
11 and deployment of broadband and mobile technologies,
12 development of new and improved materials, new forms of
13 energy and other types of investments that that Fund
14 Manager may deem worthy."

15 Section 5. The Code of the Federated States of Micronesia,
16 as amended, is hereby further amended by enacting a new section
17 404 of title 30 to read as follows:

18 "Section 404. Letter of intent. Each Major Corporation
19 that intends to establish a Fund must deliver a letter
20 to the President of the Federated States of Micronesia
21 Development Bank, between 60 days and 90 days after the
22 delivery of its payment of corporate income tax to the
23 FSM, signed by a director of the Major Corporation,
24 stating that it intends to establish a Fund and
25 specifying the amount of the Fund, specifying the amount

1 it requires the FSM Government to invest in that Fund,
2 and selecting the Fund Manager of the Fund. The letter
3 will also describe the guarantor of the Fund and give
4 evidence that the guarantor meets the requirements
5 listed in Section 409 below. Attached to this letter
6 must be an Investment Statement that describes the
7 qualifications, capabilities, and experience of the Fund
8 Manager, the general strategy of the Fund along with the
9 projected allocation of the investments by industry,
10 stage of development, and country.”

11 Section 6. The Code of the Federated States of Micronesia,
12 as amended, is hereby further amended by enacting a new section
13 405 of title 30 to read as follows:

14 “Section 405. Public notice. Within 30 days of the
15 date of the letter described in Section 404, the
16 President of the Federated States of Micronesia
17 Development Bank will publish in a newspaper of general
18 circulation within the FSM, a notice regarding the
19 establishment of a Fund. The notice will describe how
20 to obtain an Investment Statement.”

21 Section 7. The Code of the Federated States of Micronesia,
22 as amended, is hereby further amended by enacting a new section
23 406 of title 30 to read as follows:

24 “Section 406. Deadline for depositing funds. Each fund
25 will be established by the Secretary of Finance and

1 Administration no later than 60 days after the date of
2 publication of the notice described in Section 405, and
3 all investors must have deposited their monies into the
4 Fund no later than the end of the 60th day after
5 publication. The President of the Federated States of
6 Micronesia Development Bank will ensure that the
7 government and all other investors have their funds
8 deposited into the Fund by this date. The Secretary of
9 Finance and Administration is authorized and required to
10 deposit into the Fund such tax revenue as may be
11 required pursuant to Sections 403 and 404 of this
12 Chapter.”

13 Section 8. The Code of the Federated States of Micronesia as
14 amended, is hereby further amended by enacting a new section 407
15 of title 30 to read as follows:

16 “Section 407. Duration of funds. Each Fund will have a
17 life of 10 years, at which time the original capital
18 amount of the funds will be returned to the investors,
19 along with 3% of the value of the Fund which is then in
20 excess of the original capital amount, after all
21 interest payments are made to investors. Furthermore,
22 interest at the rate of 3% per annum will also be paid
23 to the investors within 30 days of the end of each
24 fiscal year.”

25 Section 9. The Code of the Federated States of Micronesia,

1 as amended, is hereby further amended by enacting a new section
2 408 of title 30 to read as follows:

3 "Section 408. Investment in Venture Funds by Federated
4 States of Micronesia citizens and corporations.

5 Citizens and corporations of the Federated States of
6 Micronesia may invest in a Fund. The minimum investment
7 shall be \$100,000."

8 Section 10. The Code of the Federated States of Micronesia
9 as amended, is hereby further amended by enacting a new section
10 409 of title 30 to read as follows:

11 "Section 409. Guarantee of repayment of original
12 capital amounts. The fund manager, or its parent
13 organization, or an unrelated party (the "Guarantor"),
14 must at the outset guarantee the repayment of the
15 original capital amounts invested in a Fund, at the end
16 of the life of the Fund. The Guarantor must be rated at
17 least investment grade rated by Moody's or Standard and
18 Poors or Fitch or a national rating organization
19 acceptable to the President of the Federated States of
20 Micronesia Development Bank, or it must have a net worth
21 of least ten times the original capital of the Fund.
22 The President of the Federated States of Micronesia
23 Development Bank will ensure that the Guarantor meets
24 the criteria set out in this section."

25 Section 11. The Code of the Federated States of Micronesia,

1 as amended, is hereby further amended by enacting a new section
2 420 of title 30 to read as follows:

3 "Section 420. Guarantee of payment of interest. The
4 Guarantor must also guarantee the payment of interest to
5 investors at the end of each fiscal year during the life
6 of the Fund, at the rate of 3% per annum."

7 Section 12. The Code of the Federated States of Micronesia,
8 as amended, is hereby further amended by enacting a new section
9 421 of title 30 to read as follows:

10 "Section 421. Required investment in corporations
11 registered in the Federated States of Micronesia. By the
12 end of the fifth year and at the end of the tenth year
13 of the Fund, at least 15% of the Fund must be invested
14 in corporations registered in the FSM."

15 Section 13. The Code of the Federated States of Micronesia,
16 as amended, is hereby further amended by enacting a new section
17 422 of title 30 to read as follows:

18 "Section 422. Reports to investors. At the end of each
19 year, the Fund Manager will issue a report to each
20 investor stating new investments, sales or other
21 dispositions of investments, the rationale for new
22 investments and dispositions of investments, and the
23 rationale for each current holding, and its estimate of
24 the value of each investment and the resulting gain or
25 loss during the current year and since the inception of

1 the Fund.”

2 Section 14. The Code of the Federated States of Micronesia,
3 as amended, is hereby further amended by enacting a new section
4 423 of title 30 to read as follows:

5 “Section 423. Appraiser’s annual report. Ninety days
6 before the end of the tenth year of the Fund, an
7 independent appraiser qualified in the valuation of
8 companies will value each of the holdings in the Fund,
9 and the overall Fund. The appraiser will issue a report
10 detailing the current value of each investment, and the
11 methodology for determining each investment’s valuation.
12 The report will be signed by the appraiser and sent
13 directly to each investor 30 days before the end of the
14 tenth year of the Fund. The cost of the appraiser will
15 be an appropriate expense of the Fund. Six months before
16 the end of the tenth year of the Fund, the Fund Manager
17 will recommend an appraiser to the President of the
18 Federated States of Micronesia Development Bank. If the
19 Board of Directors of the Federated States of Micronesia
20 Development Bank approves the recommendation, the
21 appraiser will be hired. If it does not, the matter
22 will be decided by the arbitration panel described in
23 the contract between the Investors and the Fund
24 Manager.”

25 Section 15. The Code of the Federated States of Micronesia,

1 as amended, is hereby further amended by adding a new section 424
2 of title 30 to read as follows:

3 "Section 424. Advisory board. Each Fund shall have an
4 Advisory Board that shall give advice to the Fund
5 Manager. The Board shall consist of at least 5 people
6 that are selected by the President of the Federated
7 States of Micronesia, with the advice and consent of the
8 Congress. The Board shall meet at least once a year and
9 shall give advice to the Fund Manager. The costs of the
10 Advisory Board shall be an appropriate expense of the
11 Fund."

12 Section 16. The Code of the Federated States of Micronesia,
13 as amended, is hereby further amended by enacting a new section
14 425 of chapter 4 to read as follows:

15 "Section 425. Expiration date. The provisions in this
16 act, specifically Section 401, will expire on April 1,
17 2014, unless extended by law."

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25 Section 17. This act shall become law upon approval by the

1 President of the Federated States of Micronesia or upon its
2 becoming law without such approval.

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March 20, 2008

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/s/ Manny Mori

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Manny Mori

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President

Federated States of Micronesia

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