

STANDING COMMITTEE REPORT NO. 16-137

RE: C.B. NO. 16-183/R&D

SUBJECT: AMENDMENTS TO LEGAL INVESTMENTS FOR CAPTIVE INSURERS

MARCH 28, 2011

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress⁰
Federated States of Micronesia
Sixth Special Session, 2011

Dear Mr. Speaker:

Your Committee on Resources and Development (R&D), to which was assigned C.B. No. 16-183, entitled:

"A BILL FOR AN ACT TO AMEND SECTION 1013 OF TITLE 37 OF THE FEDERATED STATES OF MICRONESIA, AS ENACTED BY PUBLIC LAW NO. 14-88, TO ELIMINATE CERTAIN RESTRICTIONS ON A CAPTIVE INSURANCE COMPANY FOR LOANS TO OR INVESTMENTS IN ITS PARENT COMPANY OR AFFILIATES, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The purpose of C.B. No. 16-183 is to clarify the limits to legal investments available to captive insurance companies registered in the Federated States of Micronesia.

Your Committee held a meeting with an MRA representative on March 26, 2011. The MRA representative explained in detail the rationale behind the proposed amendment.

Currently section 1013(4) limits a captive's loans to or investments in its parent company or affiliates to fifty percent of captive assets. It was explained to the Committee that for some captives it is useful to invest in or loan to affiliated companies as it allows the captive to earn a higher return compared to simply stowing assets in banks. The MRA

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representative further explained that more earnings for the captive means more taxable income for the Federated States of Micronesia.

The MRA representative explained that this requirement in the law was a surprise to MRA when discovered. He explained that originally the provision was to allow loans to or investments in affiliated companies up to possibly eighty percent of captive assets or higher, subject to the approval of the Insurance Board. The MRA representative did not know why the provision had been amended. He explained that other captive domiciles do not limit loans to or investments in affiliated companies. Therefore, this restriction places the Federated States of Micronesia at a competitive disadvantage in attracting captives.

The MRA representative explained that this amendment would not negatively affect any existing captives or ordinary domestic companies in the FSM. He explained that this amendment would benefit all captives domiciled in the FSM, not just a certain few or a certain one. It was explained that this amendment would serve to make the FSM a more attractive and competitive domicile by offering more flexibility in cash management to captives operating here.

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 16-183 and recommends its passage on First Reading, and that it be placed on the calendar for Second and Final reading in the form attached hereto as C.B. No. 16-183.

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Respectfully submitted,

/s/ Roger S. Mori
Roger S. Mori, chairman

Tony H. Otto, vice chairman

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Dion G. Neth
Dion G. Neth, member

/s/ Peter Sitan
Peter Sitan, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member