

STANDING COMMITTEE REPORT NO. 18-105

RE: C.B. No. 18-56 (W&M)

SUBJECT: FSM TRUST FUND

JANUARY 15, 2014

The Honorable Dohsis Halbert
Speaker, Eighteenth Congress
Federated States of Micronesia
Third Regular Session, 2014

Dear Mr. Speaker:

Your Committee on Ways & Means, to which was referred C.B. No. 18-56, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND SECTIONS 1202, 1208 AND 1217 OF TITLE 55 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED BY PUBLIC LAW NO. 12-16, FOR THE PURPOSES OF PLACING ONE MEMBER OF EACH GOVERNMENT ON THE BOARD OF TRUSTEES, ESTABLISHING STATE SUB-ACCOUNTS IN THE FSM TRUST FUND, AND FOR OTHER PURPOSES,".

begs leave to report as follows:

The intent and purpose of this bill is expressed in its title.

Your Committee held a meeting on November 27, 2013 regarding the above captioned C.B. No. 18-56.

Your Committee notes that C.B. No. 18-56 provides for several changes to existing law. First, the bill would require that the Board of Trustees for the FSM Trust Fund have one member from each of the four states. Currently, nominations to the Board are only required to "take into account the need to have adequate geographical representation," without a strict quota. Thus, each state might not necessarily be represented on the Board of Trustees. C.B. No. 18-56 will ensure that each state has one member on the Board.

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Currently all appointments to the Board are made by the President of FSM. This will not change; however, the Governor of each state will make their nominations to the President of the Board member who will represent their state. Your Committee approves of the modification to ensure that all states have a participating member of the FSM Trust Fund Board of Trustees, nominated by the Governor of said state.

Your Committee further notes that C.B. No. 18-56 also requires the Board of Trustees for the FSM Trust Fund to meet at least once per year. Currently, the Board is required to only meet "as necessary." Considering the importance of the FSM Trust Fund for the future of the Nation, your Committee approves of this change requiring a minimum of one annual meeting.

Your Committee also notes that C.B. No. 18-56 creates Trust Fund sub-accounts for each of the States. There is no requirement in C.B. No. 18-56 itself that any State, the National Government, or other donor make a contribution to the sub-accounts. Yet, the potential would exist for a state to make its own contribution or for a particular donor (e.g., an NGO) to contribute to a specific state sub-account. These investments are managed in an identical way to the main FSM Trust Fund. Costs and profits amongst the accounts and sub-accounts are treated on a pro rata basis.

Your Committee notes that the FSM Trust Fund sub-accounts are designated as follows: "A" sub-accounts are for long-term investments; "B" sub-accounts are for net income gained from the "A" sub-accounts' investments. In other words, "A" is envisioned as the main corpus of the investments, being stocks, bonds, principals, etc., whilst "B" is for the dividends, interest, etc., of those "A" investments after costs. Typically, a state will not be removing money from the "A" sub-accounts, but rather will only access the "B" sub-account. The National Government's contributions to the "A" sub-accounts of each state remain the property of the National Government to ensure that no state will access those deposits directly, only the net profits in the "B" sub-account derived therefrom.

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The purpose of C.B. 18-56 is to provide a mechanism for additional income for the States come 2023. This bill is in accord with the National Government's plan to give more money and financial autonomy to the States. Therefore, your Committee approves of the creation of State sub-accounts as set forth in C.B. No. 18-56.

Your Committee further notes that the language and intent of C.B. No. 18-56 is to limit National Government ownership of contributions to State sub-accounts to those amounts that the National Government itself contributed. Contributions to State sub-accounts made by the states, NGOs, or other donors are the property of the relevant State and may be withdrawn by that State beginning in 2023. Yet, your Committee finds that it would be beneficial to add clarifying language to C.B. No. 18-56 to emphasize this point.

Your Committee would like to offer the following amendment to read as follows:

1. Page 7, amending 3 and 4, insert "(5) States may withdraw their own contributions to their State's sub-account "A" beginning in 2023."
2. Page 7, Line 3, delete "(5)" and insert "(6)" in lieu thereof.

Your Committee is in accord with the intent and purpose of C.B. No. 18-56 and recommends its adoption in the form attached as C.B. No. 18-56, C.D.1.

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Respectfully submitted,

/s/ Isaac V. Figir
Isaac V. Figir, chairman

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

/s/ Wesley W. Simina
Wesley W. Simina, member

/s/ Tony H. Otto
Tony H. Otto, member

/s/ David W. Panuelo
David W. Panuelo, member

Joseph J. Urusemal, member

/s/ Yosiwo P. George
Yosiwo P. George, member