

## FEDERAL RESERVE SYSTEM

Bank of the Federated States of Micronesia  
Kolonias, Pohnpei  
Federated States of Micronesia

### Order Approving Establishment of a Branch

The Bank of the Federated States of Micronesia (“Bank”), Kolonias, Pohnpei, Federated States of Micronesia (“Micronesia”), a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a branch in Honolulu, Hawaii. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in Honolulu, Hawaii (*The Honolulu Star-Bulletin*, November 4, 2005). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of \$78 million, is the only commercial bank incorporated in Micronesia.<sup>1</sup> The state and national governments or governmental agencies of Micronesia control 80 percent of Bank’s shares.<sup>2</sup> Bank provides a variety of banking services to retail and corporate customers through branches in each of the four states comprising Micronesia (Kosrae, Pohnpei, Chuuk, and Yap). The

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<sup>1</sup> Asset data are as of September 30, 2005.

<sup>2</sup> No other shareholder owns or controls more than 5 percent of Bank’s shares.

proposed branch would be Bank's first office outside Micronesia.<sup>3</sup> Bank is a qualifying foreign banking organization under Regulation K (12 CFR 211.23(b)).

The primary reason for establishing the proposed branch is to provide Bank with access to check-clearing and wire-transfer services in the United States that are currently provided by the bank's U.S. correspondent bank. The branch would also coordinate safekeeping and other services related to access to the U.S. payments system. In addition, Bank anticipates that the branch may engage in other permissible activities in the future.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside of the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2); 12 CFR 211.24(c)(1)).<sup>4</sup> The Board also may consider additional standards set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3)).

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<sup>3</sup> Bank also has a license for a loan production office in Saipan, the Northern Mariana Islands; however, it does not currently have an office in Saipan.

<sup>4</sup> In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by home country authorities, Bank is subject to supervision and regulation by the Federated States of Micronesia Banking Board (“FSMBB”). In addition, Bank is subject to all U.S. banking and banking-related laws by treaty and is supervised by the Federal Deposit Insurance Corporation (“FDIC”) pursuant to those laws. On October 1, 1982, the governments of the United States and Micronesia concluded a Compact of Free Association (the “Compact”).<sup>5</sup> Under section 221 of the Compact, the United States is obligated to make available to Bank the FDIC’s programs and services, and under section 231, they are provided in accordance with a Federal Programs and Services Agreement between the governments of the United States and Micronesia (the “Agreement”), that became effective simultaneously with the Compact.<sup>6</sup>

The Agreement provides that “[a]s an ongoing FDIC-insured and FDIC-supervised bank, the Bank and its management are and shall continue to be subject to existing and future United States banking and banking-related laws,

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These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board’s determination.

<sup>5</sup> In the United States, the Compact was approved by Public Law 99-239 of January 14, 1986, as amended (48 U.S.C. § 1901 *et seq.*) and became effective on November 3, 1986. See Presidential Proclamation 5564 of November 3, 1986, 51 Federal Register 40,399 (1986).

<sup>6</sup> Article XI of the Agreement governs the provision of FDIC services and related programs.

rules and regulations relating to supervision, regulatory, and resolution and receivership matters . . . .” Accordingly, Bank is supervised by the FDIC on a consolidated basis. Bank is subject to on-site examination by both the FSMBB and FDIC and is audited annually in accordance with U.S. auditing standards.<sup>7</sup> Based on all the facts of record, and in light of the Agreement, which designates the FDIC as a supervisor of Bank, it has been determined that Bank is subject to comprehensive supervision on a consolidated basis by the appropriate authorities in its home country for purposes of the IBA.

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3)) have also been taken into account. The FSMBB and FDIC have no objection to the establishment of the proposed branch.

As noted, Bank is subject to all U.S. banking laws and regulations, including those related to capital adequacy and anti-money laundering, and Bank’s compliance with those laws and regulations is monitored and enforced by the FDIC. Bank is considered well-capitalized, and managerial and other financial resources of Bank are considered consistent with approval. The activities of the proposed branch would initially be limited to processing transactions for Bank’s head office and customers. Bank appears to have the experience and capacity to support the proposed branch. Bank has also established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

With respect to access to information about Bank’s operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have

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<sup>7</sup> FSMBB cooperates with the FDIC by participating in examinations and sharing information.

been reviewed and relevant government authorities have been communicated with regarding access to information. Bank has committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, the FDIC is permitted to share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, Bank's application to establish a branch is hereby approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board. Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of the application also is specifically conditioned on compliance by Bank with the conditions imposed in this order and the commitments made to

the Board in connection with this application.<sup>8</sup> For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board,  
effective December 23, 2005.

*(signed)*

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Jennifer J. Johnson  
Secretary of the Board

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<sup>8</sup> The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of Hawaii to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of Hawaii to license the proposed office of Bank in accordance with any terms or conditions that it may impose.