

Federated States of Micronesia - Update on FDIC Insurance Coverage Concerns

- The United States and the Federated States of Micronesia (FSM) have a longstanding defense and economic partnership that supports the U.S. security presence in a large part of the Western Pacific Ocean. The U.S. receives exclusive strategic access to FSM territory for the U.S. military and in turn provides FSM with economic assistance and eligibility for certain essential U.S. federal programs and services, which support FSM Government operations through the Compact of Free Association and its related agreements. This relationship is key to countering foreign adversaries in the region which seek to increase influence in Micronesia and the Pacific generally.
- One aspect of the U.S.-FSM relationship under the Compact is the Federal Programs and Services Agreement (FPSA) that authorizes numerous U.S. agencies, including the Federal Deposit Insurance Corporation (FDIC), to provide programs and services in the FSM that the FSM cannot provide for itself. The current FPSA expires on September 30, 2023. The two sides have negotiated an updated agreement, but it will not enter into force for several months in light of a 90-day notice requirement once the updated document is signed and transmitted.
- The FSM's key financial institution and only local bank, the Bank of the FSM, has an outstanding performance record in serving our citizens and our international partners who invest in our nation's growth. FDIC insurance is essential for our depositors and for access to international banking.
- FDIC insurance coverage for the Bank of the FSM has been in place for decades. The FSM Government has asked that this coverage continue uninterrupted even if the new FPSA has not yet entered into force.
- The FSM has been actively engaged in ongoing conversations with the FDIC, administration officials, and relevant regulators to find a pathway to prevent an immediate or short-term lapse in FDIC insurance, which would impact the FSM economy and lead to potentially catastrophic results.
- The administration has submitted anomaly language to Congress requesting FDIC and other agencies to continue providing coverage and service to the FSM under the terms of the current FPSA until the new FPSA is entered into force as a stopgap effort to avoid a lapse.
- In the event that FDIC ends insurance coverage to the Bank of FSM on October 1, this will initiate a series of actions by regulators that would undermine the Bank of FSM's ability to perform normal banking activities. We are urging FDIC to take quick and decisive actions and carry out any temporary measures to ensure that the FSM Bank is able to keep operations up and running.
- **FDIC insurance is important both to protect depositors and to grant access to the U.S. banking system. A loss of FDIC insurance, even for several days or weeks, would be devastating. The Bank of the FSM will cease being able to conduct most banking activities. The Bank of FSM would not be able to cash checks, conduct wire transfers, do ACH transactions, or purchase cash to meet the demands of customers. This would send shock waves through the economy and the region. The FSM is requesting congressional engagement on this urgent matter to weigh in with FDIC and the administration to find a temporary solution to prevent a financial crisis.**
- **ASK:** Given the importance of FDIC coverage for the banking sector of the FSM, which remains a close strategic and defense ally of the United States, we ask that your boss:
 - **Sign-on to a congressional letter to FDIC to communicate the importance of taking every possible step to continue its coverage of the FSM and prevent a lapse in coverage that could be devastating to the FSM economy; and**
 - **Reach to Congressional leadership to urge the inclusion of a legislative fix through anomaly language on the FPSA incorporated in any stopgap funding measure or other immediate legislative vehicle.**