

September XX, 2023

WORKING DRAFT

Chairman Martin Gruenberg
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Chairman Martin Gruenberg:

The Federated States of Micronesia (FSM), which has a vital strategic relationship with the United States that provides the U.S. military full defense rights in a large portion of the Western Pacific, has benefited from eligibility for FDIC insurance continuously since the FSM became a sovereign nation in 1986 through its Compact of Free Association. This oversight has been beneficial both to the United States and the FSM.

Despite its outstanding performance record and the importance of FDIC insurance to the country's citizens, economy, and its international partnerships, we are deeply concerned with reports that the Bank of the FSM, the only local bank in that country, may lose eligibility for FDIC insurance on October 1, 2023 because of extraordinary U.S. political and policy events outside of the FSM's control. The Bank's eligibility for insurance is dependent on the provisions of the U.S.-FSM Federal Programs and Services Agreement (FPSA) which will expire on September 30, 2023. The replacement FPSA that has been negotiated between the United States and the FSM will not come into force for several months. In the interim, Congress is working to take legislative steps to continue the terms under the current 2003 FPSA until the new agreement comes into effect. Any immediate or short-term lapse in FDIC insurance could result in catastrophic impacts on the banking sector and economy of the FSM.

FDIC insurance and oversight grants the Bank of the FSM essential service for its customers and crucial access to the U.S. banking system. The impacts of an FDIC insurance loss would initiate a cascading series of procedural actions with the Federal Reserve and Hawaii banking authorities that would lead to the Bank of FSM ceasing to be able to conduct banking activities to meet the demands of customers and inhibit the Bank's ability to perform normal banking activities. We are deeply concerned that these impacts could cause customers to panic. As such, we ask that the FDIC find a way to continue the insurance beyond September 30 and to utilize every tool in its means to mitigate the adverse consequences to the Bank of the FSM and to the economy of that country, especially since the Biden Administration and a bipartisan and bicameral slate of Congressional leaders support the imminent extension of broad economic support for the FSM.

We remain extremely troubled by the state of discussions with the FSM to resolve this issue. We implore the FDIC to work with the necessary parties to ensure that more is done to allow the FSM's financial institution to be able to operate and serve consumers and businesses as they currently are doing, even in the event of a potential lapse in government funding. Additionally, we urge FDIC to take quick and decisive actions and carry out any temporary measures to ensure that the FSM Bank is able to maintain the status quo of its operations.

This material is distributed by Arnold & Porter Kaye Scholer LLP on behalf of Federated States of Micronesia. Additional information is available at the Department of Justice, Washington, DC.

We request a quick response to this letter and additional steps or statutory changes that you need to mitigate the potential financial impact in the FSM. It is critical that information is clearly communicated as soon as possible, and we request a briefing to the House Financial Services Committee and Senate Banking Committee on this urgent matter by no later than [Insert date].

Sincerely,