

**NOTICE OF PERMANENT REGULATION**

**UNDER THE MANDATE OF THE FSM REGISTRAR OF CORPORATION**

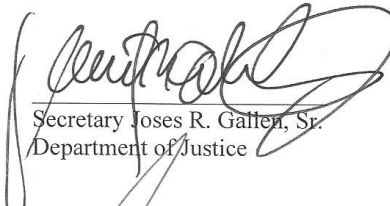
Pursuant to the authority vested in me as Registrar of Corporation, I am promulgating the enclosed as permanent regulation to implement Title 36 of the Code of the Federated States of Micronesia (Annotated) according to the procedures set forth in Chapter 1 of Title 17 of the FSM Code (Administrative Procedures Act), with prior notice to the public and opportunity to comment.

Date: 4/23/19

  
Dohsis Halbert, Registrar of Corporation

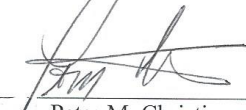
Approved as to legal sufficiency:

Date: 4/23/19

  
Secretary Joses R. Gallen, Sr.  
Department of Justice

Approved by the President:

Date: 4/30/19

  
Peter M. Christian  
FSM President

## REGULATION REGARDING BENEFICIAL OWNERSHIP AND BEARER SHARES

1. Authority. This regulation is issued according to the authority of the Registrar of Corporation under section 106 of Title 36 of the FSM Code (Annotated), which provides that Registrar of Corporations has the power reasonably necessary to perform the duties required of the Registrar by this chapter, and to administer this chapter efficiently. The Registrar of Corporations with the approval of the Secretary of the Department of Justice and the President of the Federated States of Micronesia shall have the power to prescribe such rules and regulations as are deemed advisable to administer and carry into effect the provisions of this chapter.
2. Guidelines regarding "beneficial ownership".
  - a. §103 paragraph (24) of Title 36 defines a "shareholder" to mean the person whose shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.
  - b. Companies are required to keep and maintain the following information:
    - i. Identity of person or persons having legal ownership of a company;
    - ii. Identity of natural person or natural persons who are beneficial owners of the company; and
    - iii. Identity of person or persons serving as members of board of directors of a company.
    - iv. The term "person" as used in letter i. and iii. refers to a natural person, a legal entity created by fiction of law, for example, a corporation, or an arrangement.
  - c. For the purpose of determining "beneficial ownership" under the Business Organization Act of 2016, enacted by Public Law No. 20-35, the following rules and definitions apply:
    - i. A "beneficial owner" is the natural person or natural persons having ultimate ownership or control of a company and includes natural person or natural persons who exercise ultimate effective control over a legal person or arrangement. Reference to ultimate ownership or control and ultimate effective control refers to situations in which ownership or control is exercised through a chain of ownership or by means of control other than direct control.
    - ii. With respect to legal persons, the following rules shall apply in determining the beneficial ownership:
      1. The identity of the natural persons (if any – as ownership interests can be so diversified that there are no natural persons, whether acting alone or together, exercising control of the legal person or arrangement through ownership) who ultimately have a controlling ownership interest in a legal person. A person has a controlling ownership interest in a legal person if it has direct or

- indirect ownership or control over more than 25% of the shares or voting rights in that legal person; and
2. To the extent that there is doubt under c.iv.1 as to whether the person(s) with the controlling ownership interest are the beneficial owner(s) or where no natural person exerts control through ownership interests, the identity of the natural persons (if any) exercising control of the legal person or arrangement through other means.
  3. Where no natural person is identified under c.iv.1 or c.iv.2 above, the identity of the relevant natural person who holds the position of senior managing official.
- d. The information enumerated in paragraph 2.b. shall be contained and disclosed upon filing of articles of incorporation and in the annual report filed with the Registrar of Corporation.
  - e. Companies registered with the Registrar of Corporation shall obtain and hold up-to-date information on the companies' beneficial ownership as required in this regulation. The required information should be kept at least for five years since the end of the period to which it relates. The five year retention period runs regardless whether the company ceases to exist.
  - f. Upon discovery of deficiency of information on beneficial ownership, such deficiency shall be corrected immediately. It is a personal responsibility of the chief executive officer and the chairman of the board of a company, or its equivalent, to take immediate steps to correct deficiency of information. Written reports are to be filed with the Registrar of Corporation describing the steps taken to rectify the deficiency. In the event of violation, the Registrar of Corporation shall take action to demand compliance and/or impose the general sanctions and penalties according to title 36 of the FSM Code.
  - g. For the purpose of this regulation, the term "company" means a corporation or a partnership duly registered in accordance with Title 36 of the FSM Code (Annotated).
  - h. The Registrar of Corporation may require further information from a company with respect to beneficial ownership. A company so required shall have 30 days to produce additional information as required. In the event of violation, the Registrar of Corporation shall take action to demand compliance and/or impose the general sanctions and penalties according to title 36 of the FSM Code.
3. Guidelines with respect to "bearer shares"
    - a. To further strengthen transparency of legal ownership of companies, it is the policy of the Registrar of Corporation to temporarily suspend legal recognition of "bearer shares". Any new filing of Articles of Incorporation shall not allow for the issuance of bearer shares.
    - b. This temporary suspension of bearer shares shall be reviewed every six months, until this issue is resolved by act of Congress.