

## MEMO

**TO:** The Board of Directors

**FROM:** Matthew P. Reed  
General Counsel

**DATE:** March 19, 2026

**RE:** Final Rule on Deposit Insurance Coverage for Branches of U.S. Banks in the Federated States of Micronesia, the Marshall Islands, and Palau

## OVERVIEW

Staff presents to the FDIC’s Board of Directors (Board) the attached final rule (Final Rule) and requests authorization to publish it in the *Federal Register*. The Final Rule would amend the FDIC’s deposit insurance regulations to provide that the FDIC insures the deposits of all branches of U.S. insured depository institutions (IDIs), whether present or future, in the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (Marshall Islands), and the Republic of Palau (Palau), collectively known as the Freely Associated States.

## BACKGROUND

In 1981, the Federal Deposit Insurance Act (FDI Act) was amended to permit the FDIC to insure deposits at branches of U.S.-chartered IDIs located in the Trust Territory of the Pacific Islands, which included territories that are now the FSM, the Marshall Islands, and Palau. Between 1986 and 1994, the FSM, the Marshall Islands, and Palau became independent nations, and each entered a Compact of Free Association (Compacts) with the United States. The Compacts and associated agreements authorize certain government agencies, including the FDIC, to provide specific services to each of the Freely Associated States. In 2023, the United States and each of the Freely Associated States entered new agreements relating to their respective Compacts, and Congress approved the new agreements in 2024. The new agreements authorize the FDIC to provide deposit insurance to IDIs chartered by any of the Freely Associated States. A few U.S. IDIs also operate branches in the Freely Associated States that have historically been insured under authority in the FDI Act.

## LEGAL FRAMEWORK AND OVERVIEW OF THE INTERIM FINAL RULE

Under the FDIC’s regulations, an obligation of an IDI that is payable solely at an office of the IDI located outside any State is not considered a “deposit” for purposes of the deposit insurance regulations. Where an obligation of an IDI is carried on the books and records of an office of the IDI located outside any State, the regulations provide that it shall not be considered an insured deposit, even if it is also made payable at an office of the IDI located within any State.

That is, where obligations booked outside the U.S. are made dually payable (meaning that the deposits are expressly payable in an office of the IDI in the United States), they may be entitled to depositor preference (payment ahead of the institution's other creditors), but they are not generally eligible for deposit insurance coverage.

Following the conclusion of the Compact-related agreements, the FDIC adopted an interim final rule with request for comment (Interim Final Rule) to clarify that legacy branches of U.S. IDIs in the Freely Associated States are not considered to be offices located outside any State for purposes of deposit insurance coverage. Thus, the deposits of these branches are eligible for FDIC insurance, if dually payable. The Interim Final Rule defined "legacy branches" as the number of branches operating in the Freely Associated States by each U.S. IDI as of the rule's effective date, August 9, 2024.

## **PUBLIC COMMENT**

The FDIC received one comment letter from a U.S.-chartered IDI (Bank of Guam) that operates branches in the Freely Associated States. While the commenter supported the Interim Final Rule to the extent it clarified the application of FDIC deposit insurance to legacy branches of U.S. IDIs in the Freely Associated States, the commenter raised concerns that the limitation of coverage to legacy branches would act as a restriction to growth and expansion that did not historically exist. The commenter requested that the FDIC remove the limitation to legacy branches.

## **FINAL RULE**

In response to the comment received, the Final Rule would remove the reference to "legacy branches" in the FDIC's regulations. Under the amended rule, all branches of U.S. chartered banks in the Freely Associated States, whether present or future, would be insured by the FDIC. As a result, dually payable deposits of these branches would be insured by the FDIC.

Providing deposit insurance to all branches of U.S. IDIs in the Freely Associated States will better achieve the FDIC's intent to align its deposit insurance regulations with the historical availability of FDIC deposit insurance in the Freely Associated States. The final rule also puts U.S. IDIs on equal footing with IDIs chartered by the Freely Associated States. Further, removing a limitation that may have served as a barrier to entry will support a competitive banking environment in the Freely Associated States. Additionally, the FDIC does not have a clear rationale to limit deposit insurance only to existing branches of U.S. IDIs and not new branches of U.S. IDIs.

## **CONCLUSION**

Staff recommends that the Board approve the Final Rule for publication in the *Federal Register* with an effective date of 30 days following publication.

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