

POLICY DIRECTIVE NO. 5

GENERAL PRINCIPLES GOVERNING
THE RELATIONSHIP OF CFA TO SPONSOR

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I. Introduction

1. It is believed essential to clarify and restate the general principles governing relationships between the Committee for a Free Asia (CFA) and Sponsor. The moral responsibilities and obligations of each party must be well defined and completely understood.

2. At the outset, it must be recognized that Sponsor has responsibilities and obligations which transcend those inherent in the usual private or pseudo private activities. It is, therefore, primarily responsible to insure that CFA's programs and objectives are in consonance with foreign and domestic policy aims. Moreover, Sponsor, in carrying out its assigned mission, is dependent upon and responsible for appropriated funds. Sponsor, therefore, must reasonably conform with the legal and procedural standards set for it. These include the legal and moral responsibility for the proper expenditure of its appropriated funds, the submission of sound budgetary estimates requesting funds for the accomplishment of its mission, continuing appraisal of all its activities during the fiscal year in terms of expenditures and results, and positive responsibility and accountability for all operations which it sponsors or otherwise directs.

3. In carrying out its assigned mission, Sponsor has wilfully and purposely elected to delegate a portion of its basic authority to obligate and expend appropriated funds to a separate legal entity, created by Sponsor as its chosen instrument and proprietary activity. In so doing Sponsor secures cover and flexibility and is able to enlist the services and experience of private citizens whose talents would otherwise be denied to Sponsor.

4. Sponsor proposes to vest and has vested certain of these citizens with managerial authority and responsibility. It is important to recognize, however, that Sponsor cannot and does not intend to abrogate all policy guidance, authority and responsibility to CFA. In accepting Sponsor's funds, CFA must recognize Sponsor's basic responsibilities in this activity. Sponsor has vested the Executive Committee of CFA with managerial authority and responsibility for the operation of CFA, subject to policy guidance and the approval of operating programs and financial funds therefor and to other items specified.

5. At the same time certain private citizens believing in the philosophy of democratic freedom, have loaned their services, reputations and good will to this activity. As directors and officers of CFA they are charged with the duty of conducting the operations of CFA in a reputable and efficient manner, according to the purposes and limitations prescribed by the corporate charter and established in this document. It is recognized

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that the preservation of the personal integrity of these individuals involves the broad exercise of their judgment and the unfettered utilization of their experience and talents. Accordingly, within the framework hereof, it is contemplated that normal executive authorities will be exercised by these officials. ||

6. In recognition of the foregoing, and the complexities, both of substance and relationships, inherent in this activity, it seems necessary and proper that the principles above stated be established and recognized in a formal document. It is further necessary and proper that the understanding so arrived at be implemented by effective working procedures, consistent with the nature and purpose of, and in order to effectuate, such understandings. To this end the following principles and procedures are set forth.

II. Budget and Fiscal

A. Program Presentation

7. CFA shall submit annually on or before May 1 a comprehensive program for the fiscal year beginning on 1 July broken down by divisions of CFA. This program, submitted in conjunction with the budget presentation by CFA, shall describe the activities contemplated, the objectives to be obtained, and the method to be utilized in the conduct of each. The descriptive matter shall include data adequate for Sponsor to pass judgment on the proposed program and should include but not be limited to personnel and logistical requirements. Provision shall be made for contingencies to enable CFA to take advantage of situations not foreseen when the program was prepared.

8. Sponsor shall promptly review this program for consistency with foreign and domestic policies and for consistency with its own mission. Sponsor reserves the right to approve, modify or require abandonment, or change in emphasis any of the existing or proposed programs. Only those activities provided for and approved in the program shall be undertaken by CFA. Proposed departures from this program shall be presented to Sponsor for its consideration when necessary. Such presentation shall include not only new activities as are reasonably significant either in their policy or financial implications.

9. Sponsor shall provide CFA with policy guidance on a continuous basis, and CFA shall carry out its program in accordance with such policy.

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10. Sponsor's approval of the program and the financial budget submitted therewith shall authorize CFA TO PROCEED in the execution of the approved program subject only to such conditions as may be expressly imposed in such approval and to the terms and conditions hereof.

11. CFA shall supply such monthly progress and performance reports as will permit Sponsor to evaluate adequately the accomplishments of CFA and to gauge its effectiveness in the fulfillment of its assigned program.

B. Budget Presentation

12. CFA shall submit annually on or before May 1 a financial budget (together with a comprehensive program) for the coming year, and a general estimate of budgetary requirements for the succeeding year, each broken down by divisions of CFA between operating expenses and capital asset requirements. The annual budget should be broken down with quarterly phasing as supplemental information. The budgetary requirements so submitted shall, of course, be planned with reasonable thoroughness and accuracy. A detailed analysis of the objective categories of expense or the major items of construction or purchase of capital assets shall be submitted together with and in support of the budget.

13. The budget presentation shall be accompanied by a message explaining the activities and functions of each division. In addition, major changes in budgetary requirements from prior periods and significant new proposals should be explained. Lastly, each major or significant item in the capital program should be explained in terms of the operating need or objective.

14. The Sponsor shall have the right to establish budgetary limitations for each of the major programs or activities contemplated in the budget or to prescribe specific stipulations in regard to single activities contemplated if deemed warranted by special circumstances.

15. Budgetary planning shall include only the estimated amount of expenditures and actual contractual obligations to be incurred during the fiscal year. The unobligated portion of the budget allocated by Sponsor for the activities of CFA remaining at the end of the fiscal year shall expire. Specific budgeted and approved capital asset requirements for which actual purchase or obligation was not accomplished, shall be rebudgeted in the following fiscal year to the extent the items may still be required.

16. In the event certain planned activities are too provisional to permit detailed budgetary planning or positive budgetary determination, provision should nevertheless be made in the budget with appropriate notation. At the discretion of Sponsor, funds from its appropriation will be earmarked for the purpose requested, but an actual allotment of funds may be withheld pending further development of the proposal and the conclusive planning of realistic budgetary requirements.

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17. It shall be understood that the approved budget allotments made by Sponsor are related to the purposes or activities disclosed in the detailed budgetary presentation. New activities of significant importance not contemplated in the budgetary presentation shall require the submission of a budget amendment even though the previously approved budget may be adequate to provide the funds required for the new activity.

18. The expenditure or obligation of funds for activities not contemplated in the budget and for which funds have not been allotted to CFA by Sponsor is prohibited excepting as is provided for in the provision of a contingency fund as provided below.

19. Requested revisions of the budget shall be submitted quarterly but may also be submitted at any time that proposed new activities or unforeseen circumstances require a significant change in the approved budget. Supporting budgetary detail, an explanation will be required to the degree warranted by the magnitude and significance of the requested revision.

20. Sponsor shall give prompt consideration to all budget submissions and shall formally notify CFA of its determinations, and shall clearly indicate any special limitations or stipulations conditional to its approved allotments.

C. Contingency Fund

21. A contingency fund in a reasonable amount shall be provided as an integral part of the budget. The purpose of this fund is to ensure that the budgetary limitations prescribed by Sponsor may not become a technical obstruction to the full exploitation of unanticipated opportunities or require numerous minor revisions of the established budgetary limitations. The contingency fund thus may be used at the complete discretion of CFA to exceed any of the budgetary limitations prescribed by Sponsor. In addition, it may be used without prior approval on a practical or emergency basis to implement any new activity not contemplated in the approved budget. Amounts of the contingency fund so used, however, will be reimbursed only upon submission and approval of a request for a budget revision with explanation of the transfers from the contingency fund. Items not approved will not be restored to the contingency fund.

D. Reserve Provision

22. In addition to underwriting the operating programs and capital asset requirements of CFA, Sponsor agrees to provide and to permit the retention by CFA of a liquid-asset reserve fund. Sponsor will therefore make

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additional provision from its appropriation, as necessary, to ensure the availability of funds to CFA to maintain this reserve fund at an appropriate level. The reserve fund shall be invested entirely in U. S. Government obligations of a readily convertible and short-term variety.

23. The principle of the reserve fund is that CFA may have on hand at all times sufficient net available current assets to provide for all actual or contingent liabilities which would exist in the event unforeseen circumstances necessitated the abrupt termination of Sponsor's underwriting of the CFA program. To provide the funds which may be necessary to create and maintain the reserve fund assets at the proper level, the allotment of funds by Sponsor to CFA shall be increased or decreased at quarterly intervals to the extent that not available liquid assets may be less or more than the reserve fund requirements.

24. Actual or contingent liabilities provided for in this reserve include the following:

a. The general liquidation costs which would be incurred by CFA if liquidation became necessary at any time without further funds from Sponsor or other sources. The liquidation principal in estimating such costs shall be that of a complete, orderly and solvent liquidation with economical disposition of all properties and the negotiated conclusion of all contractual commitments. Illustrative of such costs are terminal pay for employees, return transportation of American employees to the U. S., and the general overhead costs of an efficient conclusion of CFA affairs.

b. The total of the unliquidated balances of all outstanding contractual commitments. These will consist largely of construction and procurement contracts in connection with the capital asset program.

c. Outstanding non-capital asset contractual obligations excluding any portion applicable to the current fiscal year. These will consist largely of term contracts for the rental of properties or for services.

d. A provision of one month's working capital requirements for both domestic and foreign operations.

E. Funding

25. CFA will requisition funds quarterly from Sponsor on an as-needed basis up to the total amount of the actual allotment provided by Sponsor. CFA will be notified at all times as to the amount of this allotment. The

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allotment will not include items requested in the budget presentation which have been rejected or suspended pending the submission of additional information or the development of more concrete plans and requirements.

F. Audit

26. CFA shall engage at its own expense the services of a firm of Certified Public Accountants, approved by Sponsor, for the annual audit of its financial operations. Sponsor shall also have the right to conduct or direct such supplemental audits as it may deem necessary.

G. Financial Reporting

27. CFA shall submit monthly financial reports reflecting its operations, and, in addition, a comparative, quarterly report of the approved budget and actual expenditures. CFA shall also submit such other financial reports reflecting its operations as Sponsor may require.

H. Special Projects

28. Sponsor may request from time to time that CFA undertake to carry out certain special activities in its behalf. To the extent that such activities are, in the opinion of the Executive Committee of CFA, compatible with the purposes of the organization and will not jeopardize its major activities or reputation, CFA shall undertake them. In this capacity, Sponsor is an independent donor and shall assume responsibility for making additional funds available for the specific activity. CFA need make no budgetary provision for such activities and need account for these funds to Sponsor only in accordance with the agreed-upon terms of the special grants.

I. Private Contributions

29. CFA will undertake no public solicitation of funds without prior Sponsor approval. CFA shall not accept funds from private donors if conditions are attached thereto, without prior Sponsor approval for such acceptance. CFA may accept unsolicited funds but such funds shall be segregated in a separate bank account until their disposition is approved by Sponsor. A quarterly report of such receipts shall be submitted with whatever detail as to their source may be available.

J. Fiscal Liaison

30. The CFA comptroller and a designated liaison officer of Sponsor will be responsible for the completeness and authenticity of all fiscal matters for each party. It shall be the duty of the Sponsor liaison officer to be responsible for insuring that proper allotments are made and that the funds are available

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for transmission to CFA.

III. General and Administrative

A. Personnel

31. Sponsor will be consulted in advance concerning the election or appointment of CFA committee members, directors or key officers.

32. A memorandum of understanding reflecting the individual's responsibilities to Sponsor shall be executed by each such person before assumption of his position. Sponsor will furnish such memorandum. In addition, no officer, employee or committee member shall be made witting of sponsorship without executing a suitable, similar agreement furnished by Sponsor. No personnel appointment shall be made by CFA over objections of Sponsor.

33. Sponsor shall indemnify the directors and officers of CFA against any liability arising from litigation resulting from actions undertaken with Sponsor approval, without negligence or malfeasance on their part.

34. A formula for overseas allowances or other benefits shall be established which in conjunction with basic salaries shall be consistent with standard business practices in the area, giving due consideration to the additional intangible rewards offered by private business such as but not being limited to pensions, insurance, private commissary privileges, etc.

B. Construction and Procurement of Capital Assets

35. Adequate records of property acquisition and disposition shall be maintained by CFA.

36. A procurement officer or purchasing agent facilities shall be established and maintained by CFA.

37. The procurement program and the electronic communications program of CFA shall be presented with the annual budget or any revisions thereto, and approval of the budget shall constitute approval of the procurement and electronic equipment programs, unless specific stipulations or requirements are prescribed provided that a qualified purchasing agent or procurement officer is available to and used by CFA.

C. Termination

38. It is to be understood that Sponsor reserves the right to direct the liquidation of any part or the whole of CFA's activities at any time. Any such liquidation necessarily must proceed in an orderly manner.

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39. The unexpended funds on hand after liquidation of CFA's affairs shall be distributed in accordance with its by-laws on a pro rata basis. A charitable organization designated by Sponsor to receive such portion of the funds available for distribution as the total of its contribution to CFA bears to total contributions to CFA from all sources. This provision is subject to the right of the donors of limited or restricted gifts for special projects to a return of the unexpended portion of their funds as required by the terms of their grants. In any liquidation, applicable state law shall be observed.

D. Liaison Channels and Coordination

40. A point of liaison for the conduct of CFA affairs will be designated by Sponsor. Policy guidance will be furnished CFA by Sponsor from time to time as required. Except in matters requiring action by the head of Sponsor or his immediate deputies, such guidance will be furnished by or through the single central liaison office of Sponsor. Any matters which CFA desired to bring to the attention of Sponsor may be referred through such liaison office.

41. There shall be the closest possible coordination and liaison consistent with security, with the maintenance of proper cover for both Sponsor and CFA, and with the specified general objectives of CFA, between the specified field representative of Sponsor, and the CFA representative in each Asian country or agreed area. This coordination and liaison shall include but not be limited to official approaches by CFA representatives to important officers of foreign governments when these approaches affect the operations of either Sponsor or CFA. The specified field representative of Sponsor shall be informed promptly of the operations plan in his area for the coming fiscal year as soon as this plan has been approved by Sponsor, and it shall be the responsibility of Sponsor's home officer to see that such information is promptly provided in each case. If upon receiving that information, the Sponsor specified field representative in that area has comments or suggestions, they shall be promptly discussed with the CFA representative in the field. If the Sponsor's home liaison officer fails to receive any objections from the Sponsor specified field representative within one month after receipt of the operations plan, it will be interpreted as meaning that the Sponsor representative has no objections.

42. The CFA representative in each country or area shall regularly inform the Sponsor representative in that country or area of any changes in the plan of operations, additions to it, and any important details regarding their execution. The Sponsor representative shall in turn regularly inform the CFA representative of (a) activities of himself and his associates, knowledge of which is relevant to the interest of CFA within the bounds of full security, and (b) any suggestions or objections which he may have to offer regarding proposed CFA operations.

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43. In the event of disagreement on matters of fundamental and basic importance between the Sponsor representative and the CFA representative in the field, Sponsor representative may instruct the CFA representative to suspend the proposed action until each has reported the case to his respective head office (in the East and San Francisco) for resolution.

E. Surveys

44. Sponsor may from time to time conduct such surveys of the organizational structure, personnel policies, employment procedures and standards of employee benefits, procurement and electronic communications program, fiscal activities, and security policies as it shall see fit. Based thereon Sponsor may require any modifications deemed necessary or desirable after full consultation with the Executive Committee.

IV. Security Policies

45. CFA and Sponsor will at all times take all practical precautions against compromising the relationship between CFA and Sponsor. This information in and of itself is recognized as classified information.

46. The recruitment of all personnel for CFA either by CFA or Sponsor shall be conducted in a manner so as not to disclose Sponsor's interest. The officers of CFA and other employees whose duties require or presume a knowledge of the fact that CFA is a sponsored organization and that appropriated funds are being utilized for the operation of this organization shall require a Security Clearance from Sponsor in advance of their employment and in advance of their acquisition of this information. For convenience, this group will be referred to in communications and otherwise as Category I. Each person who has the above knowledge or who will have access to this knowledge must execute a secrecy agreement, which should be filed with Sponsor.

47. The remaining officers and employees of CFA, direct or indirect, who specifically are not authorized to have knowledge of sponsorship, financial support or interest and whose duties are such that they are not likely to obtain such information, may be employed without prior security approval of Sponsor. However, prior to the employment of individuals in this less sensitive category, an advance 24-hour check will be made by CFA with Sponsor to determine whether any information exists which, in the opinion of Sponsor, would preclude the employment of the individual concerned. Subsequent to this check and after employment by CFA, a Personal History Statement form adapted for this purpose will be completed and submitted to Sponsor for such limited security check as Sponsor may deem appropriate. For convenience, persons falling into this latter category will be referred to in subsequent communications as Category II. It is understood that the basic security responsibility for initial and continuing security of employees falling within

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Category II, shall be that of CFA. For special procedures for hiring local Asians see paragraph 55.

48. Continuing security clearance by Sponsor is a prerequisite to the employment by CFA of all personnel in Category I. Sponsor shall have the right for security reasons only to disapprove the employment or continued employment or other use of personnel in Category I. or II.

49. An officer of CFA, who has been granted a covert security clearance, should be designated as security officer of CFA to be responsible for the implementation and continuation of the security requirements for the operation. This officer shall be approved and indoctrinated in these requirements by Sponsor and within CFA shall be vested with the necessary authority to carry out his responsibilities.

50. Sponsor will communicate to CFA its decision as to security clearance for employment in each case involving an individual falling into Category I. Sponsor in addition will furnish any pertinent personnel information developed by the investigation for the guidance of CFA.

51. CFA shall make no appeals to agencies of the U. S. Government concerning the status or entry of aliens associated with or employed by CFA except in coordination with Sponsor. At its discretion, Sponsor shall be the exclusive channel for placement of such appeals.

52. All communications between Sponsor and CFA are to be undertaken within channels of communication approved by Sponsor. Communications of security interest between CFA representatives in the field directly and CFA headquarters will be transmitted through covert channels approved by Sponsor. All matters which do not involve any security interest will be transmitted from the CFA field representative to CFA headquarters through open mail and cable channels. CFA has an obligation to insure that no matters of security interest are included in open mail and cable channels. These communication procedures will be subject to periodic check by appropriate security officials to be certain that adequate security practices are observed.

53. While all practical efforts shall be taken to ensure non-compromise of information indicating Sponsor interest in CFA, it will be necessary to provide to CFA some classified materials not higher than secret for policy guidance or otherwise, which material is not considered practical to sterilize. This requires, therefore, that adequate internal safeguards be maintained to handle and protect this material. Prior to transmitting it to CFA, it will be screened by Sponsor, and it should be made available by CFA only to consult with Sponsor for security advice in establishing measures to protect from compromise and disclosure any classified materials received.

54. Special security measures which may be deemed necessary to support the continuing functions of CFA will be devised by Sponsor in cooperation with CFA, and shall be implemented by the latter.

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55. Prior to hiring a local Asian, CFA will consult the Sponsor's local station chief. It will be implicit in this consultation that (A) there is no CE information precluding employment; (B) there is no other security interest which in the view of the station chief precludes CFA employment. It should be understood that in these consultations the responsibility of the Sponsor's station chief is to approve on a security basis and advise on other matters. (It is understood there may be cases in which by a mutual agreement both CFA and Sponsor are utilizing the same person.)

56. Prior to hiring a local Asian, the CFA representative will make a security check with his local sources, including as a general rule the local U. S. Embassy.

57. The CFA representative is authorized to hire upon completion of the above two procedures.

58. Simultaneously with hiring a local Asian -- if possible, in advance of local hiring -- the CFA representative will forward such information as he has secured locally to CFA's head office via suitable channels. Sponsor will then conduct appropriate additional checks including its indices checks and CE files.

59. The CFA representative will enter into employment agreements only on a sufficiently flexible basis so as to permit dismissal of the employee on proper directive. The CFA representative will at no time indicate security factors as grounds for dismissal.

60. Whenever a CFA representative, in the course of local investigation through sources other than Sponsor's, uncovers derogatory information concerning a prospective employee determining against employment, he will report such information to the Sponsor for introduction into Sponsor's records.

61. In any case where there may be any question as to the security or other suitability of any Asiatic or other non-U.S. citizen, continued employment in the field will be understood to be contingent upon subsequent affirmative approval by Sponsor.

62. Integral activities of CFA conducted under other corporate or organizational form shall be subject to the provisions herein unless specifically excluded by Sponsor.

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