

SECRET
EYES ONLY

Executive Registry
1527

DDI/O 76-1287

DD/A 76-1287

1 MAR 1976

MEMORANDUM FOR: Director

FROM : Sidney D. Stembridge *SS*
Acting Director of Security

VIA : Deputy Director for Operations
Deputy Director for Administration

SUBJECT : Yuriy Ivanovich Nosenko
(Payment of Certain Funds
Previously Promised)

1. This memorandum submits a proposal for your approval. The proposal is to immediately pay Yuriy Ivanovich Nosenko \$28,500 in back salary in settlement of an Agency commitment to him and to authorize a subsequent one-time payment of \$10,000 to him directly or as a contribution to his retirement for identifying a ranking British official, William Vassall, as a recruited Soviet agent.

2. Yuriy Ivanovich Nosenko is a 48-year-old former Soviet intelligence officer who is currently employed as an independent contractor by this Agency. Mr. Nosenko has for some time been of the opinion that he is entitled to \$28,500 in back pay. This amount represents the difference between the salary actually paid to him during the 1 March 1969 to 1 March 1975 period and the \$25,000 per year which was promised to him at the time of his defection in February 1964. At the time of his defection, Mr. Nosenko was also promised the additional \$10,000 for identifying William Vassall, a British Admiralty employee recruited by the KGB.

3. While serving as a KGB security officer with the Soviet Disarmament Commission in Switzerland, Mr. Nosenko contacted an American diplomat in Geneva on 5 June 1962 and requested a small loan to repay official Soviet funds which he had squandered. Based on this contact Mr. Nosenko was recruited shortly thereafter by the Agency and he agreed to

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work as an agent in place. On 15 June 1962 Mr. Nosenko returned to the Soviet Union where he resumed his duties as an intelligence officer with the Second Chief Directorate of the KGB in Moscow. Mr. Nosenko worked in place in the Soviet Union until January 1964 when he returned to Switzerland. At that time Mr. Nosenko decided to defect and requested political asylum in the United States.

4. Mr. Nosenko defected in Switzerland on 4 February 1964 and was brought to the United States under Public Law 110 on 11 February 1964. At the time of his defection, certain financial commitments were made to Mr. Nosenko. These commitments were substantiated in a conversation with him on 7 February 1964 and were documented in a 10 February 1964 memorandum to the Acting Deputy Director for Plans from Mr. David E. Murphy, Chief, Soviet Russia Division (SR Division). This memorandum stated as follows:

"First, I assured Subject [Mr. Nosenko] that I was satisfied that he was genuine. Based on this and assuming his continued 'cooperation' I said we would proceed to make arrangements to bring him to the States. Second, I confirmed our agreement to pay him \$25,000 for each year in place (\$50,000) plus \$10,000 for his part in the Vassall case and our readiness to contract for his services at \$25,000 per year. Third, I explained the polygraph he would be expected to take as final proof of his bona fides."

5. Shortly after his arrival in the United States, the SR Division encountered serious difficulties in attempting to establish the bona fides of Mr. Nosenko. The SR Division concluded that Mr. Nosenko was not what he claimed to be and thus was not a bona fide defector. As noted in paragraph four of Attachment A, Mr. Nosenko was held under highly secure conditions at an Agency installation from April 1964 until October 1967. In October 1967 the primary responsibility for Mr. Nosenko was transferred from SR Division to the Office of Security, which conducted a thorough review of the developments in this case. The conditions of confinement of Mr. Nosenko were progressively relaxed and in October 1968 the bona fides of Mr. Nosenko were established by the Office of Security. At this point it should be noted that the confinement of Mr. Nosenko was cited by the

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Rockefeller Commission Report in June 1975 and that Mr. Nosenko is aware of this citation. Mr. Nosenko has, however, made no threats concerning possible damages as a result of this confinement. Also, despite the difficult period through which Mr. Nosenko passed, he has been and continues to be a cooperative and productive source.

6. Mr. Nosenko has been of significant value to this Agency as a source of information on KGB Second Chief Directorate activities against U.S. Embassy personnel in Moscow. Mr. Nosenko named six members of the Embassy staff who rejected KGB recruitment overtures during the 1953-1964 period, and all have confirmed his assertion. A physical search of the Embassy in Moscow also fully substantiated information Mr. Nosenko provided regarding KGB audio surveillance devices in the Embassy. Mr. Nosenko also provided information leading to the identification of fifty-one American KGB targets and sixty-one non-American KGB agents. The most prominent of these Soviet agents were a [redacted] ambassador to Moscow, a director and a deputy secretary of the [redacted] Foreign Ministry and a British Admiralty employee, William Vassall. Mr. Nosenko is the most significant defector we have had from the Second Chief Directorate of the KGB, and as a result of this his contributions have been of unique importance.

7. Prior to 1 March 1969 Mr. Nosenko received no salary for his cooperation with this Agency. Effective 1 March 1969 Mr. Nosenko was employed as an independent contractor at the rate of \$16,500 per year. Because of the previous difficulties and uncertainties involved in establishing the bona fides of Mr. Nosenko, the extent of our commitments and obligations to him were not clear at that time. Mr. Nosenko, therefore, was not initially employed at the rate of \$25,000 per year as he had been promised. Mr. Nosenko's salary was increased annually, however, until 1 March 1975 when he began to receive the stipulated \$25,000 per year. Once the bona fides of Mr. Nosenko were firmly established and the earlier difficulties regarding his status were resolved, the initial commitments took effect and the payment of \$125,000 (less federal income tax) was completed on 16 November 1972 in settlement of salary arrears for the period April 1964 to March 1969 (see Attachment B). On 12 July 1973 a final payment was made on the obligation of \$50,000 due Mr. Nosenko for the period 1962-1964.

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8. There remains to be paid \$28,500 (less federal income tax) in salary arrears for the period 1 March 1969 to 1 March 1975 (see Attachment C) and \$10,000 outstanding for the Vassall case. (He has never requested the latter amount but the obligation still exists.) Although Mr. Nosenko signed a quitclaim for the period prior to 12 July 1973 (see Attachment D) and may have legally waived his right to back salary prior to that date, the earlier payment of \$125,000 for the period 1964-1969 recognized our commitment to Mr. Nosenko to honor all agreements and established a precedent for paying him the total salary difference. We also believe that we have a moral obligation and that this obligation should be met.

9. This matter is being brought to your attention since Mr. Nosenko believes he has a valid claim to cited back salary for the 1969-1975 period and in connection with the current transfer of full responsibility for Mr. Nosenko to the Counterintelligence Staff, Directorate of Operations. It is, therefore, recommended that you approve the expenditure of \$28,500 in full payment of back salary for Mr. Nosenko for the period 1969-1975. Of the \$28,500, \$27,667 can be paid for out of the FY1974 unobligated balance allotted to the Office of Security, with the remainder of \$833 being charged to the Office of Security FY1975 allocation.

10. It is further requested that approval be granted for the \$10,000 Vassall obligation, which could be paid directly to Mr. Nosenko at a later date or preferably could be incorporated into a retirement program for him, which is being given consideration by the Counterintelligence Staff. If approved, these transactions would represent a fulfillment of all commitments to Mr. Nosenko as of this date and would serve to fulfill outstanding Agency commitments to Mr. Nosenko prior to his transfer to the Counterintelligence Staff.

Attachments

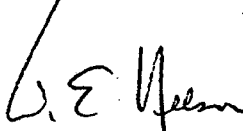
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SUBJECT: Yuriy Ivanovich Nosenko
(Payment of Certain Funds
Previously Promised)

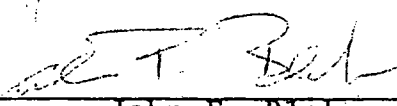
CONCURRENCE:



William E. Nelson
Deputy Director for Operations

5 March 1976

Date



John F. Blake
Deputy Director
for
Administration

12 March 76

Date

APPROVED : Kevin A. Walters Deputy Director. 20 March 1976

DISAPPROVED: _____

Distribution:

- Orig - Return to OS via DDA
- 2 - DCI
- 1 - ER
- 1 - DDCI
- 2 - DDA
- 1 - DDO
- 1 - CI/R & A

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EYES ONLY

ATTACHMENT A

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
EXCEPT WHERE SHOWN
OTHERWISE
EYES ONLY

Executive Registry

22-5458

6 OCT 1972

MEMORANDUM FOR: Director of Central Intelligence
THROUGH : Executive Director-Comptroller
SUBJECT : Retroactive Reimbursement of
Yuriy Ivanovich Nosenko

1. This memorandum suggests action on the part of the Director of Central Intelligence; this action is contained in paragraph 9.

2. Mr. Yuriy Ivanovich Nosenko, a 45-year-old, former Staff Officer of the Committee for State Security (KGB) of the USSR, attended the Institute of International Relations, Moscow, from 1945 to 1950; was affiliated with Russian Naval Intelligence during the 1951-1953 period; and was an officer with the KGB from March 1953 until his defection to the Agency in Geneva, Switzerland, on 4 February 1964, after having worked for CIA for approximately two years.

3. A review of Mr. Nosenko's case reflects that, at the time of his defection, various official commitments were made to him, including a lump sum payment of \$50,000.00 based upon his nearly two years' work inside the KGB; a \$10,000.00 bonus for his work on the Vassal case; and a contract as a consultant at a salary of \$25,000.00 per annum. Mr. Nosenko was advised by his Agency Case Officer that Mr. Nosenko was working for the Central Intelligence Agency as of 5 February 1964, and that his salary began from that date. This was a verbal agreement with the Agency Case Officer, and is fully documented in our files.

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SENSITIVE INTELLIGENCE SOURCES
AND METHODS INVOLVED

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CLASSIFIED BY 000988
EXEMPT FROM GENERAL DECLASSIFICATION
SCHEDULE OF E.O. 13526, EXEMPTION CATEGORY:
§ 5E(1), (2), (3) or (4) (insert one or more)
AUTOMATICALLY DECLASSIFIED ON
Date Impossible to Determine
(unless impossible, insert date or event)

EYES ONLY

4. In the early debriefing of Mr. Nosenko, it became apparent that he was a particularly complex individual. To permit extensive and prolonged debriefing, arrangements were made to accommodate Mr. Nosenko under highly secure conditions at ISOLATION, where he remained from 1964 to 1967. These tight security arrangements were dictated, during the initial phases at least, by the additional need to provide Mr. Nosenko with continuing personal protection, since there was the distinct possibility that he would be targeted for execution if the Soviets should discover his whereabouts.

5. Since October 1967, the primary responsibility for Mr. Nosenko has been in the Office of Security, which conducted a thorough review of prior developments in the case. Mr. Nosenko was moved to the Washington, D. C. area in late 1967, and the case passed through various stages of phased normalization, as he was given an increased degree of freedom and independence. Mr. Nosenko was actually resettled on the economy in April 1969; he obtained a divorce from his former Soviet spouse in September 1969; and he later married an American girl in October 1969. During the period from October 1967 to April 1969, Mr. Nosenko did not receive a salary, but he was provided with a moderate amount of spending money.

6. As of April 1969, Mr. Nosenko signed a one-year contractual agreement for \$16,500.00, including a clause giving assistance to him in resettlement expenses in the amount of \$8,000.00. In March 1970, Mr. Nosenko signed a new contract for two years at \$18,500.00 per annum. At about this same time he was provided with certain financial assistance, \$20,000.00 being for the down payment on a new house, and \$5,000.00 for other related household expenses. Mr. Nosenko's contract was renewed at the new rate of \$19,500.00 per annum on 1 March 1971, and the contract was again renewed in February 1972, at the salary of \$21,000.00 per annum.

7. An analysis of this case clearly indicates that Mr. Nosenko has been an extremely valuable source, one who has identified many hundreds of Soviet Intelligence Officers, and he has otherwise provided a considerable quantity of useful information on the organization of the KGB, its operational doctrine, and methods. At least a thousand formal memoranda have been

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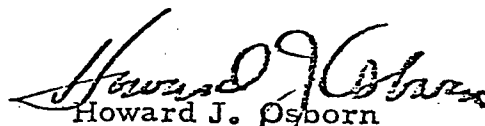
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forwarded to the Federal Bureau of Investigation based on data from Mr. Nosenko. He has conducted numerous special security reviews on Soviet subjects of specific intelligence interest, and he has proven himself to be invaluable in exploring counterintelligence leads. He recently authored a book which is of interest to the Agency. In effect, Mr. Nosenko has shown himself to be a productive and hard working defector, who is "rehabilitated" and favorably disposed towards the Agency.

8. In the course of a recent meeting with Mr. Nosenko, he brought up the subject of his missing salary, covering the period from April 1964 to March 1969. Mr. Nosenko readily admitted that he is living very well at the present time, but he is not in a position to save any money for the future. He also expressed deep appreciation to the Agency for the financial assistance which was provided him through the years, and he considers this to have cancelled out the original Agency obligation of a lump sum payment in the amount of \$50,000.00. Mr. Nosenko, however, still feels quite strongly that he is entitled to be reimbursed for the salary which the Agency did not provide him over a five-year period. He understands, of course, that income tax would have to be deducted from this back salary of \$25,000.00 per annum.

9. In summary, the original oral agreement with Mr. Nosenko is fully documented and supports his claim; his resettlement since 1967 has been relatively smooth, with no significant security problems having developed; and he continues to function at the present time as a highly productive and useful source of information on the KGB. In view of these various considerations, it is requested that this payment of \$125,000.00 to Mr. Nosenko be approved. These funds would be paid out of unliquidated obligations applicable to lapsed appropriations (Fiscal Year 1970 and prior years--"M" Account).


Howard J. Osborn
Director of Security

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SUBJECT: Retroactive Reimbursement of
Yuriy Ivanovich Nosenko

CONCURRENCE:

John W. Coffey

John W. Coffey
Deputy Director
for Support

6 Oct 1972
(Date)

* Concur, but recommended as matter of principle that funds given him from Oct. 67 to April 69 be deducted from the 125,000 amount, and full reimbursement obtained.

Thomas H. Karamessines

Thomas H. Karamessines
Deputy Director
for Plans

12 Oct. 72
(Date)

deducted by OGC, be obtained. *(initials)*

William E. Colby

William E. Colby
Executive Director-Comptroller

18 Oct 72
(Date)

The recommendation in paragraph 9 is approved without DDP limitation *uc*

Richard Helms

Richard Helms
Director

18 OCT 1972
(Date)

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**SUBJECT: Retroactive Reimbursement of
Yuriy Ivanovich Nosenko**

Distribution:

- Original - Return to Director of Security**
- 1 - Deputy Director of Central Intelligence**
- 1 - Executive Registry**
- 1 - Deputy Director for Plans**
- 2 - Deputy Director for Support**

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ATTACHMENT B

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Retroactive Payment to Yuriy Ivanovich Nosenko

FROM: Director of Security Room 4-E-60 Headquarters		EXTENSION	NO.	
			DATE	
TO: (Officer designation, room number, and building)	DATE		OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
	RECEIVED	FORWARDED		
1. DD/M&S Room 7-D-26	26 JUN 1973		[Signature]	<p><u>BY HAND</u></p> <p>1. For Concurrence</p> <p>2. For Concurrence</p> <p>Call x 6560 or 1150 Gary Brown</p> <p>4. For Your Approval</p> <p>Can this be in connection with a quit-claim of all obligations to date? - WFC</p>
2. DD/O Room █████ 7E26		4/26	DB	
3.				
4. Executive Secretary CIA Management Cte Room 7-D-59	6/27/73	7/3	[Signature]	
5.				
6. Director of Security Room 4-E-60				
7.				
8. Ex Sec				
9.				
10. D/Security				
11.				
12.				
13.				
14.				
15.				

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DD/M&S 73-2549

Executive Registry

73-3549

25 JUN 1973

MEMORANDUM FOR: Executive Secretary
CIA Management Committee

VIA : Deputy Director for Management and Support
Deputy Director for Operations

SUBJECT : Retroactive Payment to
Yuriy Ivanovich Nosenko

1. Action Requested: This memorandum contains a recommendation for your approval.

2. Basic Data: For your assistance, reference is made to the attached memorandum of the same subject dated 5 October 1972. The provisions of the reference were concluded with Mr. Nosenko, covering back salary from April 1964 to March 1969, in October and November 1972 when he was given the sum of \$87,052.00 covering total salary for this period less Federal income tax. It is estimated that Mr. Nosenko has invested all but approximately \$15,000.00 of this sum in the purchase of property and construction of a new residence in North Carolina.

Instant memorandum is addressed to the lump sum payment of \$50,000.00 promised to Mr. Nosenko by an Agency representative prior to his defection from the KGB in February 1964. Against this sum in April-May 1969, Mr. Nosenko was given \$8,000.00 as financial assistance for resettlement on the private economy and \$25,000.00 in mid-1970 towards the purchase of a new house and other related expenses. Mr. Nosenko also agrees that he was given approximately \$2,000.00 in March 1964 which should be included as a part of the above \$50,000.00. In essence, \$15,000.00 remains outstanding against the above \$50,000.00.

Recently Mr. Nosenko has rather specifically mentioned the matter of the promises to Mr. Nosenko in 1964 and the remainder of the financial promise which he did not receive. Mr. Nosenko considers the

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AND METHODS INVOLVED

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amount to be \$13,000.00 but this is based on his recollection that he received \$10,000.00 in April-May 1969 rather than the \$8,000.00 which he actually received. As noted in the reference, as of October 1972 Mr. Nosenko had indicated that the funds previously paid to him would cancel out the 1964 lump sum promise. However, since October 1972, several incidents have occurred which have had a strong effect on his outlook on life and his personal situation. In late 1972, the wife of Mr. Nosenko suffered a heart attack requiring hospitalization and continuing treatment which was not fully covered by the health insurance provided by the Agency. Due to the particular circumstances involved in the Nosenko case, it was not possible to obtain coverage for Mr. Nosenko and wife under a group type health insurance policy.

On 18 May 1973, Mr. Nosenko suffered the loss of two toes in a lawn mower accident and the prognosis for full utilization of the other three toes, particularly the large toe which is required for balance, is still in doubt. Mr. Nosenko is currently faced with the obvious fact that he will be somewhat physically handicapped, the extent of the handicap not known at this time but in the mind of Mr. Nosenko it could very well lessen his usefulness to the Agency and perhaps duration of full employment.

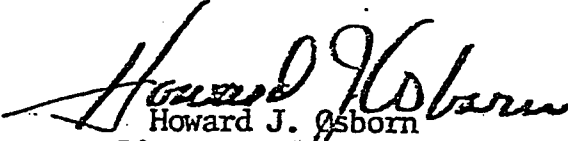
Mr. Nosenko has requested the previously mentioned \$13,000.00 which will be used for investment purposes in connection with his new property and residence construction and payment of medical bills. He has voluntarily stated that he will sign a document agreeing that the \$13,000.00 is in full and final settlement of the 1964 lump sum payment promise.

As you will note in the reference, another promise made to Mr. Nosenko prior to his defection in February 1964 concerned a \$10,000.00 bonus for his contribution to the exposure and arrest of a British citizen, William J. C. Vassall. Mr. Nosenko has never mentioned the above promise while the responsibility of the Office of Security since October 1967. It is noted that the promise of the above \$10,000.00 was apparently not a matter of discussion with Mr. Nosenko prior to his defection but was in the way of a gratuitous addition by the Agency representative when Mr. Nosenko was advised that following previous discussion he would be given a \$50,000.00 lump sum for resettlement and employment at \$25,000.00 per year. Since none of the above remarks were ever formalized in a document to Mr. Nosenko, it is very possible that Mr. Nosenko does not recall the additional remark concerning payment in connection with the Vassall case.

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3. Recommendation: In view of the above, it is requested that a payment of \$15,000.00 to Mr. Nosenko be approved, thus settling the specific \$50,000.00 lump sum promise made to Mr. Nosenko in February 1964. If approved, Mr. Nosenko will be advised that the \$15,000.00 figure is based on an accounting of Agency financial records and a signed settlement statement obtained from Mr. Nosenko. It is believed that the additional \$2,000.00 would be very well received by Mr. Nosenko and will partially offset his recent medical expenses not reimbursed from his current health insurance.


Howard J. Osborn
Director of Security

Attachment

EYES ONLY
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EYES ONLY

SUBJECT: Retroactive Payment to Yuriy Ivanovich Nosenko

CONCURRENCE:

Harold L. Brownman

Harold L. Brownman
Deputy Director
for
Management and Services

26 Jun 73

(Date)

William E. Nelson

for William E. Nelson
A/Deputy Director
for
Operations

26 June 1973

(Date)

APPROVED:

W. E. Nelson

5 JUL 1973

DISAPPROVED: _____

Distribution:

- Original - Return to Director of Security
- 1 - Executive Registry
- 2 - DD/M&S
- 2 - DD/O

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ATTACHMENT C

13 September 1978

MEMORANDUM FOR: Chief, Counterintelligence Staff

VIA : Mr. John Hart

SUBJECT : Outstanding Commitments to PDDONOR/1

1. Within the last week I have made a comprehensive search of available Agency records to determine if we have met all of the commitments made to PDDONOR/1. This has not been an easy task because responsibility for this unusual case was being transferred from the Office of Security to the Counterintelligence Staff at the very time when an attempt was made to clear up all outstanding commitments, because of other special and unusual payments made to him over the years, and because past financial records have either been retired or unavailable to me because of the Privacy Act. Nevertheless, I now feel confident that I am totally conversant and accurate on the details concerning his past salary and special payments made to meet the Agency's early commitments.

2. In order to determine if any commitments are still outstanding, we are forced to answer this question from PDDONOR/1's point of view separate from that of the Agency. These differing positions are:

a. PDDONOR/1 insists, as he has in the past (please see Attachment A), that he was promised the following:

1) A salary of \$25,000 per year. This commitment was fully met through retroactive salary payments of \$87,052 (\$125,000 less Federal taxes) made on 16 November 1972 and \$20,416 (\$28,500 less Federal taxes) made on 7 April 1976.

2) \$10,000 bonus for his work on the Vassal case. (Please see attachment B). This payment, although approved by DDCI General Walters

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on 20 March 1976, has never been made. There is no record of this payment having been made and former OS and CI B&F officers as well as OS and CI case officers responsible for PDDONOR/1 during that time frame all remember the approval but have no recollection of its implementation. The best explanation is that this payment fell between stools when on 1 July 1976 responsibility for PDDONOR/1 was transferred from OS to CI Staff.

3) \$50,000 for resettlement purposes. The Agency believes that this commitment has also been fully met. PDDONOR/1, on the other hand, feels that the \$20,000 paid him in mid-1970 for a down payment on his house should not have been applied against the \$50,000 promised him for resettlement, but against the more specific commitment 4) below. Therefore, he feels we still owe him an additional \$20,000 under this commitment.

4) Financial assistance with buying a home, or apartment.

b. Although earlier records refer to the above commitments (Attachment A), later memoranda without any explanation or attempt to reconcile these two differing positions, state that the Agency's commitments to PDDONOR/1 were the following:

1) A salary of \$25,000 per year. Met

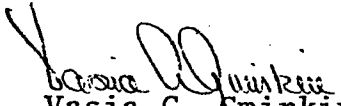
2) \$50,000 for resettlement purposes. If we are to ignore commitment 2 a. 4) above and apply the \$20,000 paid in mid-1970 against this commitment, then it has been met. Otherwise an additional \$20,000 is due PDDONOR/1 under this commitment.

3) \$10,000 bonus for his work on the Vassal case. Outstanding.

3. In conclusion, then, it would seem that in either event the Agency's early commitments to PDDONOR/1 have not yet

SECRET

been fully met. If we are to ignore commitment 2 a. 4), then we still owe him \$10,000 for the Vassal lead. If we are to honor all commitments, and fully satisfy him, then he is still due an additional \$20,000 under commitment 2 a. 3), for a total of \$30,000.


Vasia C. Gmirkin
CI/RA/O

Attachments:
As Stated

cc: Mr. John Hart w/att

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