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1 Niarchos' ship captains named Katopodes brought a libel action
2 I believe it was, against Onassis for some letter he had written
3 about some activities of Katapodes, I can't remember the
4 details now.

5 We didn't know where this was leading. So this was in
6 the Supreme Court of New York State, and so I went to a fellow
7 I knew in the U.S. Attorney's office and asked him if he
8 could keep track of how this suite was developing to see if
9 it was leading into some of the connections we had, par-
10 ticularly with Niarchos.

11 And he got some of the pleadings and some of the pre-
12 trial evidence --

13 Mr. Wides. But you don't recall any contacts between
14 the Agency and the Justice Department resulting in Mr. Yeagley
15 going up to try and halt some aspects of the grand jury
16 proceedings in New York growing out --

17 Mr. Houston. It strikes no valve.

18 Mr. Wides. Let me ask just one more question in this
19 area and then we will move on to the document I asked you to
20 look at before we started.

21 Mr. Maxwell. I have just one other question.

22 Mr. Wides. Do you recall the infamous Kilham case involv-
23 ing the alleged wrongful death of a former CAT airline agency
24 employee in Thailand in which it was alleged that two other
25 agency employees -- Mr. Kilham, I believe, had been a CAT

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1 employee. And at the time Mr. Joost and the other fellows
2 were CIA employees of the station at Thailand in 1951 they were
3 alleged to have been involved in disposing of Mr. Kilham's
4 body, and there was a serious question as to whether one or
5 both of them had been involved in his death. And then I believe
6 in 1955 this was brought to the attention of the Agency through
7 the efforts, among others, of Mr. O'Donnell, who was then the
8 station chief, Justin O'Donnell, who came back and raised it
9 with Mr. Wiesner, and then I believe it was raised with
10 Mr. Kirkpatrick and with yourself.

11 Do you recall that incident and the eventual denouement
12 of the affair?

13 Mr. Houston. I cannot remember the exact chronology.
14 I had thought they had gotten the report on the problem a
15 little earlier than you suggested. But I can't argue it.

16 Mr. Wides. Do you know if any action was taken earlier
17 than the time in 1955 when Mr. O'Donnell first raised it with
18 Mr. Wiesner?

19 Mr. Houston. I didn't know that Justin O'Donnell was
20 the one -- at least I don't recall it, so I don't know exactly
21 how it first came to my attention. But when it did, to the
22 best of my recollection, Lyman Kirkpatrick and I, and I think
23 Frank Wiesner was probably involved, tried to assemble all
24 the facts to find out insofar as possible what had gone on.
25 It was a confused picture. All sorts of interpersonal feelings

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1 that I recall were going on out there. And I think one of the
2 Thai police might have been involved.

3 Mr. Wides. I don't know if it refreshes your recol-
4 lection, but I believe a Colonel Rack was a local official
5 who had some knowledge of it.

6 Mr. Houston. To the best of my recollection I put
7 this together and talked to Allen Dulles who was much concerned
8 about it. He said, I think we ought to report that to
9 Justice.

10 And I said, there is no particular problem, because
11 there is nothing we can do about it because there is no crime
12 against the U.S. that I can find in this situation, it is a
13 crime against the Thai sovereignty.

14 And Allen said, that well may be. But I still think
15 that I want to report this to Justice.

16 And he asked me to prepare a detailed report on a
17 classified basis. I have forgotten the nature of the classi-
18 fication. I suppose the relations with CAT at that time were
19 still basically top secret.

20 So, I did prepare a report and delivered it to -- I
21 can't remember-- probably to the Assistant Attorney General,
22 Criminal Division, who ever it was.

23 They said to the effect, thank you, that is it. There
24 is nothing we can do.

25 Mr. Wides. Was there any discussion of the possibility

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1 of giving information to the Thai authorities so that they
2 could decide whether to exert jurisdiction?

3 Mr. Houston. My recollection is that the indications
4 were that the Thai authorities had as much information as we
5 did. I don't remember to the contrary, but a lot of the
6 information we got came from the Thais.

7 Mr. Wides. Did Mr. Kirkpatrick go over to Thailand
8 to talk to some of the people there to find out what they
9 knew about the situation?

10 Mr. Houston. I don't recall.

11 Mr. Maxwell. Was any action taken against either
12 of the CAT employees?

13 Mr. Wides. Dennis Fleming was the other one. And
14 he was recalled.

15 Mr. Houston. And Kilham?

16 Mr. Wides. Joost and Fleming were the two persons
17 against whom the charges or allegations were raised.
18 Kilham was the victim.

19 Mr. Houston. I remember Joost being a problem, but I
20 can't remember what the outcome was. And Dennis Fleming
21 just strikes a very faint bell. I can't remember at this
22 time.

23 Mr. Wides. Did you have another question in this area?

24 Mr. Maxwell. I just wanted to say, if you wanted to
25 continue, you said there were three cases that eliminated the

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1 kind of cases which CIA had with Justice, and the referrals,
2 and you had gone through one. And I wondered if you wanted
3 to go through the other two.

4 Mr. Houston. All right.

5 The second one was quite an interesting one. If I give
6 it in too much detail, excuse me.

7 Mr. Maxwell. Off the record.

8 (Discussion off the record.)

9 Mr. Maxwell. Back on therecord.

10 Mr. Houston. The staff officer in Italy all of a
11 sudden disappeared from his post, and there was indication
12 that he had with him a considerable sum of money, something
13 in the nature of \$30,000, I can't remember the exact amount.
14 This was promptly reported, and he disappeared into the blue.

15 The station started looking into it. And I believe we
16 sent people over to try and look into it, and found that
17 there had been a serious family problem between himself and his
18 wife.

19 Finally, through some sort of source in Mexico we got
20 word that this fellow was near Mexico City, and he passed word
21 to the station through a lawyer that he had written all the
22 operational details of what he had been engaged in in Italy,
23 which again were very sensitive, sealed them, and put them
24 in a vault which only the lawyers could get at, with instruc-
25 tions to his lawyers that if anything happened to him, no

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1 The SEC, as a result has raised some questions with Justice
2 between our justice and our statutory problems. This is
3 before Justice now.

4 Mr. Wides. Is there a file in the OGC office generally
5 regarding, not necessarily every one, but many of your --
6 which would contain many or most of OGC contacts with
7 Administrative agencies over the years?

8 Mr. Houston. No, because they weren't -- there probably
9 is a substantial file on relations with Internal Revenue.
10 But those were to a large part either working out our own
11 tax equations on our own personnel with cover problems which
12 you probably know about, or the CAT situation, or Southern
13 Air Transport, and not interfering with IRS prosecutions,
14 although several times we were involved -- here is the type of
15 case I guess you are talking about.

16 What is the fellow out in the Philippines -- I think his
17 name is **Stonehill** -- who had one of the biggest tax assess-
18 ments made against an individual made against him, I think,
19 \$2 million? And **Stonehill** very definitely tried to involve
20 us in his defense. There was some connection with **Stonehill**
21 in the Philippines, you couldn't be in the Philippines without
22 some connection with them. And yet gave IRS the full in-
23 formation, and said, don't bother with us, we are not
24 concerned.

25 Mr. Wides. What about such things as the contacts with

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1 Mr. Houston. It was a memo of DITEL's that I saw.
2 I think it was dated after I left. I saw it in draft after-
3 ward. It had to do, I recall, with operations in the Trust
4 Territories.

5 Mr. Wides. In other words, the first category of issue
6 that I mentioned?

7 Mr. Houston. Yes.

8 Mr. Wides. With regard to MH MUTUAL, which is a topic
9 that we obviously don't have time to discuss fully today, and
10 we have not yet seen the files, I wonder -- and Mr. Maxwell
11 was going to pursue this, and I may be back -- if you could
12 give me a rough idea during the period when it was under your
13 stewardship of the organizational chart, as it were, for the
14 policy committee, the investment committee, and so forth, how
15 were the questions of what investments could be made with the
16 pension fund and the insurance fund and the like, how was that
17 policy developed, and who was involved, and so forth?

18 Mr. Houston. The lawyer running the actual operation
19 reported directly to me.

20 Mr. Wides. Was he in the OGC office? Or part of
21 ANVIL?

22 Mr. Houston. He was ANVIL, a staff official but under
23 unofficial cover.

24 Mr. Wides. Meaning that he was in a law firm that
25 was essentially a proprietary.

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1 Mr. Houston. Not entirely a proprietary. We supported
2 part of it, and part of it was a legitimate law firm, they
3 worked together and shared the firm.

4 Mr. Wides. Is it possible for you to indicate
5 who that is, or is that someone whom you would not like to
6 disclose.

7 Mr. Houston. I can't do that.

8 Mr. Wides. How would we refer to him in terms of his
9 position if we were trying to ascertain his identity, or
10 if we were negotiating with the Agency, as it were? What
11 was his title vis-a-vis the mutual management? Was he the
12 project officer?

13 Mr. Houston. He was certainly -- let's call him the
14 project officer for MM ANVEL.

15 Mr. Wides. And that was for a good many years, one
16 particular person?

17 Mr. Houston. Yes. He was there from pretty near the
18 start until he retired by, about two years ago, three years
19 ago. So, he was there all through the sixties, I would say,
20 or the seventies.

21 Mr. Wides. This is not John Keaney, is it?

22 Mr. Houston. No.

23 Mr. Wides. Was John Keaney's role more in terms of
24 setting up proprietaries and incorporating them?

25 Mr. Houston. John Keaney?

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1 Mr. Wides. Yes, a Washington attorney -- or Kenney.

2 Mr. Houston. Kenney. He must have been one of the cen-
3 tral cover projects. He was not an OGC project that I recalled.

4 Mr. Wides. He was not prominently involved in establish-
5 ing proprietaries or their incorporation?

6 Mr. Houston. He might have worked in some of the central
7 cover situations, but I don't recall him being involved in any
8 of the proprietaries I worked on.

9 Mr. Wides. With regard to MH MUTUAL, as you can read-
10 ily understand, we are interested in exploring its dimensions
11 in nature, and are really beginning to get access to materials
12 on it. Without taking you through all of its multi-faceted
13 aspects, which would take some time, let me ask you one
14 or two questions with regard to concerns that have been raised
15 by the committee.

16 Do you recall at any time questions arising about the
17 conflict of interest or any questionable aspects of the invest-
18 ment decisions of the MH MUTUAL program or any part of it?
19 And by that I do not mean an individual who obtained intelligence
20 information and was trading on his own, or an investment club
21 within the agency, or that kind of thing, but questions in-
22 volving either the Agency using insider information, if you
23 will, obtained through its intelligence activities or
24 otherwise in making investment decisions or buying stock or
25 debentures, or making other investments to assist the person

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1 or the corporation or country whose securities were being
2 invested in?

3 Mr. Houston. There were about two or maybe three recom-
4 mendations from the Investment Counsel we had at the time we
5 were turned down --

6 Mr. Wides. Excuse me. Was the Investment Counsel the
7 person you were referring to?

8 Mr. Houston. No, this was an outside investment
9 counsel we retained for advice for a period of time.

10 Mr. Wides. Was it a firm or an individual?

11 Mr. Houston. It is a well-known firm. And they made at
12 least two or three recommendations to invest in stock of
13 companies which we questioned rather extensive contractual
14 arrangements, and in view of those contractual arrangements,
15 I recommended that we reject the recommendations.

16 And we did.

17 Mr. Wides. Do you recall any instances where invest-
18 ments were made and it was then learned or there was
19 adversion to the fact that there were contractual relation-
20 ships, or whether they were known in advance and it was weighed
21 and the decision was made to go ahead with the investment?

22 Mr. Houston. No. The only ones I recall were turned
23 down. Since there was ample room to investigate, there was
24 no need to get in a position of possible implication of
25 conflict of interest. So, we erred on the side of turning down

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1 rather than going ahead.

2 And incidentally, the outside investment counsel would
3 not know why we turned it down.

4 Mr. Wides. Were all of the investment decisions for
5 the assets of MH MUTUAL -- and you use that in the broad
6 sense, I don't fully understand the relationships among all
7 the aspects of the complex -- but were all of the investment
8 decisions, the Eurodollars and the small amount of stock and
9 the like made by outside counsel or were there some invest-
10 ment initiatives which originated within the Agency?

11 Mr. Houston. For a while almost all of them were made
12 by this outside counsel. It was not too happy a relationship,
13 not because of his fault. I think he was doing his honest
14 best. But we took too long processing his recommendations and
15 often lost a market by taking too long through our own in-
16 ternal controls.

17 So, finally, we decided that while we had gone to him
18 for a good reason, that is, so we could show that we had
19 relied on outside counsel of known stature, that it was
20 not fair either to him or to us to be in circumstances where
21 we were really secondguessing him through our own internal
22 procedures and our own investment sort of Board of Directors.
23 So we left, I hope, on friendly terms.

24 Mr. Wides. About when was that?

25 Mr. Houston. Let me guess at around 1969, something

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1 like that.

2 Mr. Wides. Up until then as far as you know there
3 was no investment of Agency funds that were made as a result
4 of any decisions or implications within the CIA which might
5 then have been run by him for his independent advice but might
6 have originated or prompted within the Agency?

7 Mr. Houston. There may have been those. You see,
8 on our Board of Directors to which we referred all basic in-
9 vestment decisions we had three of our top economists, and
10 at least one of them was a member of a couple of college
11 investment boards, so that they had the benefit of the advice
12 to those university investment counsel.

13 Mr. Wides. Was he a consulting economist or a member--

14 Mr. Houston. A member of the staff.

15 Mr. Maxwell. Mrs. Thunberg?

16 Mr. Houston. Yes.

17 Mr. Wides. And her relationship with the university
18 board was what, as an alumni?

19 Mr. Houston. As an alumni. She was called as a
20 consultant on their investment program.

21 We also had the advice of a couple of friendly banks,
22 and at least a couple of insurance companies would freely
23 give us the benefit of their investment policies.

24 Mr. Wides. What was the relationship between yourself
25 and the banks and the insurance companies, the CIA?

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(Discussion off the record.)

Mr. Houston. To go back to the start -- it may have already been told -- back in the last fifties we found in the OGC office that the hardest thing to cope with were benefits for death or disability insured under covert circumstances, particularly when, as so often happened, no prior planning had been made for this. Even the prior planning is difficult, because if you are going to put an agent into certain circumstances, and say you will get him insurance through Mutual of Omaha, if the circumstances of the Department are later known to Mutual of Omaha, they might say, well, that is not a risky cover, and continually you wouldn't have your insurance.

So, we came to the conclusion that we needed our own insurance business, and we started by buying two very small off-shore insurance companies, and started writing death and health policies. Now, the business grew quite rapidly to cover all sorts of covert operations. And we went to two large outside insurance companies and asked if they would cooperate and take some of the policies either on a fully protected basis from us, or if they saw fit, for their own account. And both of them did both. They would take some risks for their own account, and the only thing we would ask is that they protect the investigation in case it got into sensitive fields.

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1 In others they would ostensibly take the risk and we
2 would stand behind them.

3 Mr. Wikes. So that was indemnification?

4 Mr. Houston. Complete indemnification. And by and
5 large this arrangement worked extremely well.

6 Mr. Wikes. So those were the kinds of insurance companies
7 were were talking about that would give us the benefit of
8 their investment?

9 Mr. Houston. Both of them had large investment portfolios
10 of their own, and feel I gave us access to their investment
11 manager, who were most cooperative in what they were invest-
12 ing.

13 Mr. Wikes. And what was the point of contact in the
14 Agency during that period for the insurance companies?

15 Mr. Houston. I went in both cases to set up the ori-
16 ginal contact, and then this project officer was the
17 primary.

18 Mr. Wikes. And he would have been the point of contact
19 for receiving their investment views?

20 Mr. Houston. He or his office.

21 Mr. Wides. And you mentioned also a bank as an out-
22 side source.

23 Mr. Houston. There were a couple of banks, but one
24 particularly. We kept some of the money on deposit with this
25 bank. And we had some offshore assets that were ostensibly

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held by an offshore subsidiary of the bank.

The bank at our request gave us a flat guarantee of repayment no matter what on these assets. So, we felt well protected on this. And also, when we deposited with them the certificates of deposit we got the normal prime rate on our deposits. And here again they particularly in the field of Eurobonds had some good advice, and we also went to another brokerage house in New York who had investment advisory staff that specialized in Eurobonds. So far as I know, they did not know the Agency was involved, but they gave advice on the best interest rates in Eurobonds and certificates. It was a highly specialized field.

Mr. Maxwell. Who was going to the investment house, the project officer?

Mr. Houston. The project officer.

Mr. Wides. Do you recall any dealings with Suydam and Company?

Mr. Houston. No. I have been asked time and time again about Suydam Company, and the only thing I knew was from personal knowledge going back to a trust my sister has an interest in in the Guaranty Trust. They had one of these holding companies which I think was called Suydam and Company. But you never heard -- who was it? I know. One of our directors of Southern Air Transport told me that he was continually being asked by contact with Suydam and Company. And he said

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1 that is the only one he knows, was the Guaranty Trust. There
2 was someone else, I don't know about it.

3 Mr. Wides. GETting back to the question I alluded
4 to while we were off the record, did any questions arise about
5 whether the people on the board, the investment board, or manag-
6 ing board of Mutual, who were from within the Agency, would
7 have access to economic intelligence or political intelli-
8 gence relevant to their own thinking on investments, and
9 where there was any question of a proprietary involved?

10 Mr. Houston. The members of the board were always free
11 to bring up their ideas for investments, particularly in the
12 stock field, until more recent years. But mainly we were
13 consulting the economic experts for their general economic knowl-
14 edge on trends and any input they could give on basic invest-
15 ment policies.

16 Mr. Wides. That would include, I assume, economic in-
17 telligence regarding, for example, the trend of whether there
18 was likely to be a copper shortage, or the trend of
19 whether there was likely to be more nationalization of rubber
20 plantations or oil?

21 How would you differentiate that from economic intelli-
22 gence except that it would be --

23 Mr. Houston. Because our investments, except for the
24 Eurobonds, were almost entirely in U.S. investments. And
25 while these were trained economists, their main professional

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1 interest was in the foreign field. And I don't remember them
2 staying, for instance, let's get into copper, it is going to
3 be in very short supply in Peru or whatever. I don't remember
4 any discussion of that sort.

5 Mr. Wides. Do you recall any policy papers or reviews
6 generally as to the use of Agency knowledge in the broadest
7 sense of its intelligence fund in regard to the investment
8 decisions as distinct from decisions that were generated wholly
9 by outside?

10 Mr. Houston. There were various basic general policy
11 papers -- usually I would prepare them and put them before
12 the board -- in which this may have been touched on. I don't
13 recall it specifically.

14 Mr. Maxwell. The source of funds invested under the
15 auspices of the board were what?

16 Mr. Houston. The initial source of funds was usually
17 reprogrammed at the year's end available for operational use.
18 And this was regarded as an operational use necessary to
19 support operations because of the need for the basic insurance
20 function.

21 In other words, all these companies that we had in
22 this insurance complex appeared to have the substance an
23 insurance company would be expected to have. Actually, the
24 whole fund for all of them was managed as a central fund under
25 this one project officer. On the design and organizational

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1 chart. It looked very complicated. In operation it was quite
2 simple. It was handled really as one entity with various faces
3 appearing. And the complications of those whereby maintaining
4 your directors, who took no part in the operation, your companies
5 directors, and things, and keeping your letterhead straight
6 for your writing for the different companies.

7 Mr. Maxwell. Were there other sources of funds,
8 profits **made by proprietaries** in stock or bond transactions that
9 went back into the investment fund?

10 Mr. Houston. They would all go into the central in-
11 vestment fund, and in the initial stages, particularly where
12 there was income from funds and dividends -- until the stock
13 market broke there were some capital gains registered. Then
14 the investment policy went more and more, particularly as
15 the interest rate went up, in the Eurobonds and certificates
16 of deposit, where for a while you were getting -- I think we
17 got a weighted average of over 11 percent. And then those
18 would go back into the fund against the insurance loss account-
19 ability. The most difficult thing we had was trying to
20 decide what was enough, because there was no actuarial exper-
21 ience such as in a nominal insurance company.

22 Mr. Wides. You mean the capitalization of particular
23 companies against insurance?

24 Mr. Houston. Exactly.

25 Mr. Wides. **What about proprietary profit, was that**

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one source of funds that went into the total capital fund?

Mr. Houston. No. If you reorganized a proprietary or disposed of it, the proceeds identified as the proceeds of that might go into this fund until their eventual disposition back into the Treasury, or whatever was decided.

Mr. Wides. What about prior to dissolution, just the annual operating profit, were any not left in the proprietary but taken out in part and put into the fund?

Mr. Houston. In the first place, this wasn't a frequent occurrence in proprietaries. In fact, MH MUTUAL and Air America were the only substantially profitable operations. There were minor profits in others, but by and large as far as I know they were left in the companies until they were dissolved. And toward the end of Air America I believe we let off some of the profits before the final dissolution and then took the rest of them over, and they eventually turned them into the Treasury.

Mr. Wides. With regard to the investment, in the case of certificates of deposit abroad I take it that is what you are referring to as the weighted average, when you weighted Eurodollars, Eurobonds and certificates of deposit. Whatever the form, were some of the investments in foreign countries made in any way in consultation with the operating divisions in regard to the non-investment aspects of the loan, if you will, the possible use of them for covert assistance in the broadest

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sense of that term?

Mr. Houston. No.

Let us get one thing straight. The certificate of deposit were domestic.

Mr. Wides. Were there any foreign loans?

Mr. Houston. There were no foreign loans that I recall. The Eurodollar bonds were in the case those which were guaranteed by a U.S. company.

Mr. Wides. You don't recall any investment in obligations of a foreign country?

Mr. Houston. Not of a foreign country as such. I believe there were a couple in foreign companies.

I can't even be sure of that, but my recollection is by and large of subsidiaries of U.S. companies which do not guarantee their subsidiary bonds.

Mr. Wides. Thank you.

Mr. Maxwell. I would like to go through some of the material in the Olsen case. And I have marked as Houston Exhibit 5 the excerpts from the IG's diary which I showed you before.

(The document referred to was marked Houston Exhibit No. 5 for identification.)

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