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November 2, 2010

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CLIENT/MATTER NUMBER
092281-0101

Fred J. Joseph
Securities Commissioner
Colorado Division of Securities
1560 Broadway
Suite 900
Denver, CO 80202

Re: Request for Exemption Confirmation and/or No-Action
Relief for the Issuance of Surplus Notes by the Segregated
Account of Ambac Assurance Corporation

Dear Sir or Madam:

We are writing on behalf of the Segregated Account of Ambac Assurance Corporation (the "Segregated Account"), which was established by Ambac Assurance Corporation ("Ambac Assurance") pursuant to Wisconsin law, to request either confirmation of an exemption from securities registration and/or no-action relief with respect to compliance with the securities registration and broker-dealer and/or sales representative registration or licensing provisions under the Securities Act (the "Act") in connection with the proposed issuance of Surplus Notes (as defined in Item III below) by the Segregated Account as described herein. Ambac Assurance is a Wisconsin corporation and the principal operating insurance company of Ambac Financial Group, Inc. ("AFGI").

We recently applied on behalf of the Segregated Account for a no-action letter from the Securities and Exchange Commission ("SEC") in connection with reliance on the exemption from registration under Section 3(a)(10) of the Securities Act of 1933 for the proposed transaction. Section 3(a)(10) is available for offerings in which securities are issued in exchange for one or more bona fide securities, claims or property interests, or partly in such exchange and partly for cash, where the terms of the exchange are approved after a hearing upon the fairness of the terms and conditions by, among others, any court or insurance commission. A copy of our no-action request letter to the SEC is enclosed with this letter as Exhibit A.

Ambac Assurance and the Segregated Account have provided us with, and have authorized us to make on their behalf, the factual representations about them set forth in this letter.

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I. Background Information

Ambac Assurance, a Wisconsin-domiciled insurer authorized to transact surety and financial guaranty insurance, was incorporated under the laws of the State of Wisconsin on February 25, 1970. Ambac Assurance is a wholly-owned subsidiary of AFGI, a holding company headquartered in New York City, the common stock of which is publicly traded on the New York Stock Exchange. Ambac Assurance and its subsidiaries provide financial guarantee products and other financial services to clients around the world in both the public and private sectors. Ambac Assurance's insurance activities are divided into two lines of business: (i) financial guarantees and (ii) financial services. Due to the downgrades of Ambac Assurance's financial strength ratings and investor concerns with respect to its financial condition, Ambac Assurance has been able to originate only a de minimis amount of new financial guarantee business since November 2007, and no new business since January 1, 2009. Ambac Assurance offered financial guaranty insurance on investment grade municipal finance, project finance and structured-finance debt obligations, such as municipal bonds and residential mortgage-backed securities ("RMBS"). Generally, financial guaranty insurance provides an unconditional and irrevocable guarantee that protects the holder of a fixed-income obligation against non-payment of principal and interest when due. Ambac Assurance also guaranteed certain structured-finance debt obligations indirectly, whereby a non-insurance, wholly owned subsidiary of Ambac Assurance would enter into a credit-default swap with a counterparty that protected the counterparty from defaults of the underlying security issuer, and Ambac Assurance would, in turn, guarantee the financial obligations of its subsidiary.

Through its financial services subsidiaries, Ambac Assurance provided financial and investment products, including investment agreements, funding conduits, interest rate swaps, currency swaps and total return swaps, principally to clients of its financial guaranty business. Ambac Assurance guaranteed its subsidiaries' performance under those agreements. Ambac's financial guarantee business historically depended on triple-A ratings, as well as investor confidence in Ambac Assurance's financial strength. The deterioration of Ambac Assurance's financial condition resulting from losses in its insured portfolio and the resulting downgrades of Ambac Assurance's financial strength ratings have made it impossible for it to write new business. Due to the deterioration of Ambac Assurance's financial condition, the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") increased its oversight of Ambac Assurance and began to evaluate Ambac Assurance's ability to pay all claims in its insured portfolio.

On March 24, 2010, Ambac Assurance acquiesced to the OCI's request to establish the Segregated Account pursuant to Wis. Stat. Sec. 611.24(2). Also on March 24, 2010, the OCI filed a petition in the Dane County Circuit Court of the State of Wisconsin (the "Court") to rehabilitate the Segregated Account (the "Rehabilitation"). The Court granted the petition and appointed the Wisconsin Commissioner of Insurance as the rehabilitator of the Segregated Account (the "Rehabilitator"). The Rehabilitation pertains solely to the Segregated



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Account, which is a separate insurer from Ambac Assurance for purposes of the Rehabilitation. The Rehabilitation does not include Ambac Assurance, its general account or AFGI. The Segregated Account currently operates within the terms of an Order of Rehabilitation issued by the Court. On October 8, 2010, the Rehabilitator filed a plan of rehabilitation for the Segregated Account (the "Plan of Rehabilitation") with the Court for its approval, as contemplated by Wis. Stat. Sec. 645.33(5). Such section authorizes the Rehabilitator to prepare a "plan for reorganization, consolidation, conversion, reinsurance, merger or other transformation of the insurer." The Plan of Rehabilitation was accompanied by a Disclosure Statement (the "Disclosure Statement"). The Disclosure Statement summarizes and describes certain key components of the Plan of Rehabilitation. A copy of the Plan of Rehabilitation and the Disclosure Statement are enclosed herewith as Exhibit B and Exhibit C, respectively. In addition, electronic versions of the Plan of Rehabilitation, the Disclosure Statement and other key documents relating to the Rehabilitation are available online at <http://ambacpolicyholders.com> (the "Website"). The Website has been established by the Rehabilitator to provide claimants, as well as all interested parties, access to all of the relevant materials in connection with the Rehabilitation. The Segregated Account will operate within the terms of the Plan of Rehabilitation once it is approved by the Court and becomes effective.

II. Our Request

By this letter, we respectfully request confirmation from the Securities Commissioner of the Colorado Division of Securities (the "Securities Commissioner"), based upon the authority under Sec 11-51-705 of the Act and the facts and circumstances described herein, of the availability of the securities registration exemption described below or that the Securities Commissioner will take a "no-action" position if, pursuant to the Plan of Rehabilitation as approved by the Court, the Segregated Account issues to holders of certain rights to payment from the Segregated Account (each, a "Claim") surplus notes ("Surplus Notes") in partial satisfaction of such Claims, without registration of the Surplus Notes or registration or licensing of the Segregated Account or any of its "sales representatives" as a broker-dealer or sales representatives, respectively, or issuer qualification provisions (if any), under the Act.

III. Description of the Surplus Notes Issuance

The Surplus Notes will be issued by the Segregated Account to the holders of permitted Claims in partial satisfaction of such Claims. The Surplus Notes will bear interest at the rate of 5.1% per annum and will mature on June 7, 2020. By their terms, the Surplus Notes will be subordinated obligations and no payment of principal or interest may be made without the prior written approval of the OCI. If the OCI does not approve the payment of interest on the Surplus Notes, such interest will accrue and compound annually until paid or otherwise.

The Surplus Notes will be issued from time to time in accordance with the Plan of Rehabilitation by means of a global Surplus Note eligible for deposit at The Depository Trust



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Corporation (the "DTC"). Each global Surplus Note will be executed by the Segregated Account and authorized and deposited with The Bank of New York Mellon, as fiscal agent for the Segregated Account (the "Fiscal Agent"). One global Surplus Note will be issued each month, with a principal amount equal to the portion of Claim payments from the previous month to be satisfied through the issuance of Surplus Notes. The Fiscal Agent will transfer the Surplus Notes to either the Segregated Account or directly to the holder in accordance with the rules and procedures of the Fiscal Agent and the DTC. Whether transferred initially to the Segregated Account or directly to the holder, the Surplus Notes will subsequently be posted via the DTC as a position on the books and records of the custodian for the insured obligations on the applicable Claims payment date, which varies by transaction. In most instances, such holders are serving as trustees for the beneficial owners of the underlying financial instrument(s) insured by the Ambac Assurance insurance policy. Accordingly, in their capacity as trustees, such holders will deliver the Surplus Notes, via the DTC, to the custodians holding positions on behalf of the beneficial holders. The custodians will then deliver the Surplus Notes to the accounts of the beneficial holders by posting the positions on the books and records of the beneficial holders. Accordingly, the Rehabilitator envisions that the ultimate holders of the Surplus Notes will be the beneficial owners of the underlying financial instrument(s) insured by the Ambac Assurance insurance policy. The Surplus Notes are transferrable by such owners as long as such transfer is made in compliance with applicable securities laws.

As noted above, in most instances, the holder of a Claim is serving as a trustee for the beneficial owners of the underlying financial instrument(s) insured by the Ambac Assurance insurance policy. Thus, while Ambac Assurance can readily identify the trustee that submits a Claim, it does not know and cannot typically obtain the identity of the beneficial owners that will ultimately receive the Surplus Notes. Accordingly, neither the OCI nor Ambac Assurance can determine the identity or number of beneficial owners that will receive the Surplus Notes in your jurisdiction. However, it is believed that most of the beneficial owners who will receive the Surplus Notes issued by the Segregated Account will be "Qualified Institutional Buyers" ("QIBs") as that term is defined under Rule 144A of the Securities Act of 1933.

IV. Legal Discussion

A. Securities Transaction Registration Exemption

Sec. 51-3.12 of the Act provides that the following transaction is exempt from the securities registration requirements under the Act: The offer and sale of securities in exchange for bona fide claims or property interests within or from this State made pursuant to a final judgment or order, in either event no longer subject to appeal, of a federal or state court of competent jurisdiction or other governmental authority expressly authorized by law are transactions in securities exempted from the securities registration requirements of the Colorado Securities Act of 1990, provided as follows: (1) the terms and conditions of such offers and sales are approved by said court or governmental authority; and (2) the final judgment or order was issued after reasonable notice and opportunity to be heard is given to all interested parties.



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It appears that the exemption under Sec. 51-3.12 of the Act serves the same purpose as the exemption under Sec. 3(a)(10) of the Securities Act of 1933 (as described on page 1 of this letter). It appears that the only material difference between the exemption under Sec. 51.3.12 of the Act and the federal exemption is the state exemption's reference to a "federal or state" court versus the "any" court language within the federal exemption.

As discussed in detail above, Ambac Assurance established the Segregated Account pursuant to Wis. Stat. Sec. 611.24(2) with the approval of the OCI, which is a state governmental agency. The establishment of the Segregated Account permitted Ambac Assurance, at the OCI's direction, to allocate to the Segregated Account only those policies, categories of policies or parts of its business for which a rehabilitation proceeding was necessary. The OCI then limited the Rehabilitation to the Segregated Account. The OCI determined this to be the most effective option in order to, among other things, rehabilitate certain troubled policies and segments of Ambac Assurance's business, while minimizing the risk of a regulatory proceeding with respect to the entire company, which could have caused an increase in losses and a reduction in Claims-paying resources. Pursuant to the Plan of Rehabilitation filed with the Court, holders of Claims will receive, in complete satisfaction of such Claims, a combination of cash payments and Surplus Notes. The Plan of Rehabilitation must be approved by the Court, and only after a hearing is conducted at which all persons exchanging Claims for Surplus Notes have the right to appear. In order for the Plan of Rehabilitation to become effective, the Court must find that the terms and conditions of the Issuance are procedurally and substantively fair.

We do not believe the fact that the "Court" is not a "federal or state court" should serve to eliminate the availability of the exemption for the issuance of the Surplus Notes. We believe that the protections afforded to the Claim holders by the process described herein is comparable to the protections contemplated in the exemption under the Act.

B. Broker-Dealer and/or Sales Representative Registration

Under Sec. 11-51-201(2)(B) of the Act, it appears that the Segregated Account, the issuer of the Surplus Notes, is excepted from the definition of "broker-dealer." In addition, any persons who may be "sales representatives" representing the Segregated Account are not required to be registered as such by way of Sec. 11-51-402(2) of the Act if the transaction exemption under Sec. 51-3.12 of the Act is available for the issuance of the Surplus Notes.

You are advised that no commission or remuneration will be paid or given, directly or indirectly, to any person in connection with the solicitation of Claim holders or the issuance of the Surplus Notes to the Claim holders.

If you believe that the securities registration and broker-dealer and/or sales representative exemptions described above are available under the Act for the issuance of the Surplus Notes in your jurisdiction please provide your written confirmation. In the alternative, we respectfully request that you issue a no-action letter based on the belief that neither securities



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registration nor broker-dealer and/or sales representative registration is necessary for public protection in your jurisdiction based, all or in part, upon the following:

- (i) The Plan of Rehabilitation must be approved by the Court, and only after a hearing is conducted at which all persons exchanging Claims for Surplus Notes have the right to appear, and at which the procedural and substantive fairness of the Issuance will be considered by the Court;
- (ii) The Plan of Rehabilitation and the Disclosure Statement, along with all other relevant materials in connection with the Rehabilitation, have been made available via the Website to all holders of Claims;
- (iii) Most of the Claim holders are believed to be QIBs either acting for their own account or pursuant to fiduciary authority;
- (iv) The time and expense of registering the Surplus Notes in your jurisdiction would cause additional material expense to the Segregated Account thereby reducing and delaying the ultimate recovery received by the holders of Claims in your jurisdiction; and
- (v) No commission or other remuneration will be paid, directly or indirectly, to any person in connection with the solicitation of Claim holders or the issuance of the Surplus Notes.

* * *

Based on the foregoing, we respectfully request: (i) either a confirmation that the above-described exemption from securities registration is available for the issuance of the Surplus Notes in your jurisdiction or that you will take a no-action position in the event that the Surplus Notes will not be registered under the Act; and (ii) that the Segregated Account will not be required to register as a broker-dealer under the Act and that none of its officers, directors, employees or agents will be required to register as sales representatives under the Act.

Please be advised that the Court has set a hearing date for confirmation of the Plan of Rehabilitation to commence on November 15, 2010. Accordingly, we respectfully request an expedited review of this matter in order for the Surplus Notes to be issued to Claim holders in your state in a timely fashion.

If for any reason you do not believe that you can provide the exemption confirmation and/or no-action relief requested, we respectfully request an opportunity to confer with you prior to any written response.



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If you have any questions about this request or desire any additional information regarding the matters discussed in this letter, please call the undersigned at (608) 258-4215 or Ann Recob at (608) 258-4279.

In accordance with this request, we have enclosed a check in the amount of \$100 representing the request filing fee.

Please acknowledge receipt of the foregoing by stamping and returning the enclosed receipt copy of this letter in the self-addressed, stamped envelope enclosed for that purpose.

Very truly yours,

Terry D. Nelson

Enclosures

cc: Foley & Lardner LLP
Steven R. Barth
Kevin G. Fitzgerald
Andrew A. Oberdeck
Jason M. Hille

Ambac Assurance Corporation
Kevin Doyle

Dewey & LeBoeuf LLP
Michael Groll
Richard B. Spitzer