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March 18, 2011

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Jody Baux
Ambac Clerk, Dane County Circuit Court
Dane County Courthouse
215 South Hamilton Street
Madison, Wisconsin 53703

Re: *In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation*; Dane County Circuit Court Case No. 10 CV 1576

Dear Ms. Baux:

We are filing with the Court the enclosed Guidelines under Plan of Rehabilitation (Ceded Reinsurance) (the "Ceded Reinsurance Guidelines").

The Rehabilitator issued the Ceded Reinsurance Guidelines on March 17, 2011, as authorized pursuant to Section 3.02 of the Plan of Rehabilitation for the Segregated Account of Ambac Assurance Corporation (the "Plan of Rehabilitation") in order to preserve the value of reinsurance in respect of certain policies allocated to the Segregated Account of Ambac Assurance Corporation and in recognition of certain requirements imposed by reinsurance contracts to which Ambac Assurance Corporation is a party as a ceding company.

This filing does not request or require any court action.

Thank you for your attention to this matter.

Very truly yours,

FOLEY & LARDNER LLP



Michael B. Van Sicklen

Enclosures

cc: Honorable William D. Johnston (with enclosures, via first-class mail)
All Counsel of Record (with enclosures, via email)

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MILW_11070319.1

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

NOTICE OF FILING OF CEDED REINSURANCE GUIDELINES


To: Clerk of Circuit Court
Dane County Circuit Court
215 S. Hamilton St.
Madison, WI 53703-3285

PLEASE TAKE NOTICE that on March 17, 2011, the Rehabilitator signed the attached Guidelines under Plan of Rehabilitation (Ceded Reinsurance) (the “Ceded Reinsurance Guidelines”). As authorized pursuant to Section 3.02 of the Plan of Rehabilitation for the Segregated Account of Ambac Assurance Corporation (the “Plan of Rehabilitation”), the Rehabilitator has developed the Ceded Reinsurance Guidelines to preserve the value of reinsurance in respect of certain policies allocated to the Segregated Account of Ambac Assurance Corporation and in recognition of certain requirements imposed by reinsurance contracts to which Ambac Assurance Corporation is a party as a ceding company. The attached Ceded Reinsurance Guidelines will be placed on the court-approved Website.

Dated this 18th day of March, 2011.

FOLEY & LARDNER LLP

By:



Michael B. Van Sicklen, SBN 1017827
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*Attorneys for Wisconsin Office of the
Commissioner of Insurance and
Theodore K. Nickel, Commissioner of
Insurance of the State of Wisconsin, as
Rehabilitator of the Segregated Account of
Ambac Assurance Corporation*

**GUIDELINES
UNDER PLAN OF REHABILITATION
(Ceded Reinsurance)**

Dated as of March 17, 2011

The Commissioner of Insurance of the State of Wisconsin,
as the Court-appointed Rehabilitator of the
Segregated Account of Ambac Assurance Corporation

To preserve the value of reinsurance in respect of certain policies allocated to the Segregated Account and in recognition of certain requirements imposed by the reinsurance contracts to which AAC is a party as a ceding company, the Rehabilitator hereby issues the following guidelines and directions pursuant to Section 3.02 of the Plan to the Management Services Provider, AAC and each entity providing reinsurance in respect of policies allocated to the Segregated Account¹:

1. As Management Services Provider, AAC will continue to handle the processing of claims in respect of policies allocated to the Segregated Account.
2. Under the Plan, the Segregated Account will pay Policy Claims once per month on the 20th of the month (or if such day is not a Business Day, on the next Business Day) (i.e., the Payment Date) if certain requirements are satisfied. Determinations as to which Policy Claims will be paid on the Payment Date in a given month will be made by the 15th (or if such day is not a Business Day, on the next Business Day) of such month (i.e., the Determination Date).
3. No Pending Policy Claim shall be eligible to be considered a Permitted Claim on a given Payment Date unless the Proof of Policy Claim Form and other required documentation was received by the Management Services Provider on or prior to 5:00 p.m. on the last Business Day of the month preceding the month in which such Payment Date occurs.
4. The Management Services Provider, on behalf of the Rehabilitator, shall notify reinsurers of Pending Claims relating to Policies for which they provide reinsurance by sending reinsurers copies of Proof of Policy Claim Forms relating to such Policies, and any supporting documentation delivered with such Proof of Policy Claim Forms, promptly following its receipt thereof. The Management Services Provider shall use reasonable best efforts to so deliver each such Proof of Policy Claim Form (and supporting documentation, if any) within one Business Day of its validation of the underlying Policy Claim and, in any event (and whether or not such Policy Claim has

¹ Capitalized terms used herein shall have the meanings ascribed thereto in the Plan of Rehabilitation for the Segregated Account of Ambac Assurance Corporation, as approved by the Circuit Court of Dane County, Wisconsin on January 24, 2011.

been validated), by the later of (a) the last Business Day of the month in which it was received and (b) the Business Day next following the date on which it was received. The Management Services Provider shall deliver such Proof of Policy Claim Forms (and supporting documentation, if any) via email unless a reinsurer requests another method of delivery.

5. Reinsurers shall be permitted to investigate such Pending Claims and interpose defenses as permitted by the applicable reinsurance contracts and in accordance with the procedures described in these Guidelines.
6. If, having been notified of a Pending Policy Claim as provided in paragraph 4 above, a reinsurer notifies the Management Services Provider, in the manner provided in paragraph 10 below, on or prior to 5:00 p.m. on the 10th day of the month (or if such day is not a Business Day, on the next Business Day) following the month in which such Claim was submitted, that such reinsurer intends to interpose a defense in respect of such Claim, then the following guidelines shall apply:
 - a) The reinsurer and the Management Services Provider shall discuss the merits of such defense and share with one another all relevant information related to such defense and the subject Claim.
 - b) If the reinsurer and the Management Services Provider agree that such defense will be asserted in response to all or any part of the subject Claim, then the Management Services Provider or the Rehabilitator shall determine that the subject Claim (or portion thereof, as applicable) is a Disputed Claim. The Rehabilitator or Management Services Provider shall provide such reinsurer with a copy of its Objection promptly following the provision of such Objection to the relevant Holder. The Rehabilitator or Management Services Provider shall provide such reinsurer with a copy of any response of such Holder to such Objection promptly following its receipt thereof. The reinsurer may interpose a defense in any adjudication of such Disputed Claim.
 - c) If the reinsurer and the Management Services Provider agree that no defense should be asserted in response to the subject Claim, or if following an Objection to the subject Claim and subsequent response to such Objection by the relevant Holder as contemplated by clause b) above, the reinsurer and the Management Services Provider agree that the subject Claim should be a Permitted Claim, then the Management Services Provider and the Rehabilitator may determine the subject Claim to be a Permitted Claim.
 - d) If the reinsurer desires to interpose a defense in response to all or any part of the subject Claim contrary to the position of the Management Services Provider and the Rehabilitator (including following an Objection to the subject Claim

and subsequent response to such Objection by the relevant Holder as contemplated by clause b) above), then upon the request of the reinsurer, the Rehabilitator shall file a motion requesting the Court to adjudicate whether the subject Claim (or portion thereof, as applicable) is a Permitted Claim.

- e) The reinsurer shall be permitted to interpose defenses to the subject Claim in connection with such adjudication of the subject Claim by the Court. The Rehabilitator may oppose such defense in support of the payment of such Claim.
 - f) Such Claim shall remain a Pending Claim until it is determined to be a Disputed Claim, a Permitted Claim or a Disallowed Claim as contemplated, or following the proceedings contemplated, in clause b), c), d) or e) above.
 - g) With respect to such Claim, the reinsurer will be prohibited from raising the same defenses in any subsequent collection action brought by the Rehabilitator, Management Services Provider or AAC against the reinsurer for nonpayment of reinsurance in respect of such Claim.
7. If a reinsurer is notified of a Pending Claim as provided in paragraph 4 above, then any failure by such reinsurer to notify the Management Services Provider that it intends to interpose a defense to a Pending Claim, by 5:00 p.m. on the 10th day (or if such day is not a Business Day, on the next Business Day) of the month in which such Claim is determined to be a Permitted Claim and paid shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable reinsurance contract to further investigate, or to interpose a defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Claim. Such waiver shall not apply to any other right to inspect records or to raise defenses available to the reinsurer under the applicable reinsurance contract or law.
8. If the Rehabilitator intends to implement any Alternative Resolution of a Claim or potential Claim relating to a Policy for which there is in-force reinsurance, and such Alternative Resolution would involve a possible liability on the part of any reinsurer, then the following guidelines shall apply:
- a) The Rehabilitator or the Management Services Provider (on behalf of the Rehabilitator) shall provide written notice to such reinsurer that it is considering such Alternative Resolution at least 15 days prior to the implementation thereof (the "Alternative Resolution Notice").
 - b) The reinsurer shall be permitted to investigate such Claim or potential Claim and shall be provided with all relevant information relating to the proposed Alternative Resolution, subject to appropriate confidentiality undertakings. If

the applicable reinsurance contract(s) include a right to interpose defenses, the reinsurer shall have the opportunity to interpose defenses in accordance with the procedures set forth in these Guidelines.

- c) If a reinsurer notifies the Rehabilitator and the Management Services Provider, in the manner provided in paragraph 10 below, within 10 days of the date of the Alternative Resolution Notice that such reinsurer intends to interpose a defense in respect of such Claim or potential Claim, then the Rehabilitator and the Management Services Provider shall negotiate promptly with the reinsurer to reach a resolution of its objections to the Alternative Resolution of such Claim. If a timely resolution is not reached, the dispute shall be submitted to the Court for resolution.
 - d) Any failure by a reinsurer to notify the Rehabilitator and the Management Services Provider within 10 days of the date of the Alternative Resolution Notice (or if such day is not a Business Day, on the next Business Day) that it intends to interpose a defense to a Claim or potential Claim with respect to which the Rehabilitator intends to implement an Alternative Resolution shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable reinsurance contract to further investigate, or to interpose a defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Claim or potential Claim or the Alternative Resolution thereof. Such waiver shall not apply to any other right to inspect records or to raise defenses available to the reinsurer under the applicable reinsurance contract or law.
9. These Guidelines are intended to supplement the Plan; provided, however, that (a) in the event of any conflict between the terms of these Guidelines and the terms of the Plan, the terms of the Plan shall govern; (b) in the event of any direct conflict between the terms of these Guidelines, on the one hand, and applicable law or the terms of any reinsurance contract, on the other hand, applicable law or the terms of such reinsurance contract, as applicable, shall govern; (c) the failure on the part of a Person to adhere strictly to these Guidelines shall not excuse another Person from performing the obligations required to be performed by it under a reinsurance contract so long as such failure would not be expected to materially harm or prejudice the Person by whom such adherence is sought; and (d) these Guidelines may be supplemented, modified or withdrawn by the Rehabilitator at any time or from time to time in the Rehabilitator's sole discretion after 15 Business Days have elapsed since the delivery of notice by the Rehabilitator or the Management Services Provider of such supplement, modification or withdrawal to affected reinsurers, and during such period of 15 Business Days each reinsurer shall have the opportunity to comment on any such supplement, modification or withdrawal.

10. All notices provided under these Guidelines shall be effective if delivered in writing by email to (a) in the case of a reinsurer, such authorized representatives of such reinsurer as shall be specified in writing to the Management Services Provider from time to time, and (b) in the case of the Rehabilitator or the Management Services Provider, **Reinsurance_Communication@ambac.com** or to such other authorized representatives of the Management Services Provider as the Management Services Provider shall specify in writing to reinsurers from time to time. Additionally, notifications provided by reinsurers pursuant to paragraph 6 or 8 hereof shall be in the form attached hereto as Exhibit A and shall be emailed to claimsprocessing@ambac.com.
11. By no later than March 31, 2011, each reinsurer shall submit to the Management Services Provider the email address(es) of its authorized representative(s) who are to receive notices as described in paragraph 10 above.
12. All dates, times and day counts referred to in these Guidelines or in the Plan shall be understood to refer to such dates, times and day counts in New York.

By: 
Theodore K. Nickel, Rehabilitator

Exhibit A

Form of Notification of Intent to Interpose Defense

Date: [_____]

Ambac Assurance Corporation,
as Management Services Provider of
the Segregated Account of Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004

Attention: Claims Processing
Email: claimsprocessing@ambac.com
Facsimile: (212) 208-3404

With copies to:

- Reinsurance_Communication@ambac.com
- Manager, Securities Settlements
Email: OpsGroup@Ambac.com
Facsimile: (212) 208-3507
- General Counsel
Facsimile: (212) 208-3384

Reference Policy Number: [_____]

The undersigned is in receipt of a Proof of Policy Claim Form dated _____ with respect to the above-referenced Policy, a copy of which is attached hereto. The undersigned hereby notifies Ambac Assurance Corporation, as Management Services Provider for the Segregated Account of Ambac Assurance Corporation, that the undersigned intends to interpose a defense in respect of the Claim identified in such Proof of Policy Claim Form for the following reason(s):

[_____]

By _____
Name:
Title: