

MIKE BEEBE
GOVERNOR

A. HEATH ABSHURE
COMMISSIONER



HERITAGE WEST BUILDING, SUITE 300
201 EAST MARKHAM STREET
LITTLE ROCK, ARKANSAS 72201-1692
TELEPHONE: (501) 324-9260
FACSIMILE: (501) 324-9268

ARKANSAS SECURITIES DEPARTMENT

November 15, 2010

Mr. Terry D. Nelson
Foley & Lardner LLP
Verex Plaza
150 East Gilman Street
Madison, WI 53701-1497

Re: Ambac Assurance Corporation
No Action 10-NA-0029

Dear Mr. Nelson:

The Arkansas Securities Department ("Department") received your request on or about October 29, 2010, ("Request") regarding Ambac Assurance Corporation. The Request seeks confirmation that the Staff of the Department ("Staff") will not recommend that the Arkansas Securities Commissioner take enforcement action against Ambac Assurance Corporation for violations of the Arkansas Securities Act ("Act"), with respect to the proposed transactions described in the Request. I have attached a copy of the Request to avoid reciting or summarizing the facts that you have presented.

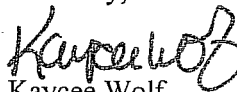
Based upon the opinions and representations set forth in your Request, the Staff will not recommend enforcement action under Ark. Code Ann. § 23-42-501 should the transactions proposed take place as set forth in the Request. Further, the Staff will recommend no action to require registration as broker-dealers or agents under the provisions of the Act.

Please note that the position of the Department is based solely upon the representations in your Request and applies only to the transactions and facts as represented in the Request. Different facts or circumstances might, and often would, require a different response. The Staff only expresses its position as to the recommendation of formal enforcement action by the Department and does not purport to be a legal opinion or formal conclusion.

We also direct your attention to the anti-fraud provisions of the Act and Rules of the Arkansas Securities Commissioner ("Rules") that remain applicable to the transaction. Responsibility for compliance with these provisions of the Act and Rules rests with the participants in the transactions described in your Request.

If you should have any questions or need additional information, please don't hesitate to contact me.

Sincerely,


Kaycee Wolf
Staff Attorney

Attachment

RECEIVED
10 OCT 29 AM 9:33
ARKANSAS SECURITIES DEPT.

October 28, 2010

ATTORNEYS AT LAW

VEREX PLAZA
150 EAST GILMAN STREET
MADISON, WI 53703-1481
POST OFFICE BOX 1497
MADISON, WI 53701-1497
608.257.5035 TEL
608.258.4258 FAX
foley.com

WRITER'S DIRECT LINE
608.258.4215
tnelson@foley.com EMAIL

CLIENT/MATTER NUMBER
092281-0101

Heath Abshure
Securities Commissioner
Arkansas Securities Department
Heritage West Building
201 East Markham, Room 300
Little Rock, AR 72201-1692

Re: Section 23-42-102(13)(B)(iv)
Request for 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 no-action relief with respect to compliance with the securities registration and broker-dealer and/or agent registration or licensing provisions under the Arkansas 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.

Arkansas Securities Department

October 28, 2010

Page 2

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

Arkansas Securities Department

October 28, 2010

Page 3

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 Arkansas Securities Department (the "Securities Commissioner"), based upon the authority under Sec. 23-42-206(e) and Rule 206.01 of the Act and the facts and circumstances described herein, 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 "agents" as a broker-dealer or agents, 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 Corporation (the "DTC"). Each global Surplus Note will be executed by the Segregated Account

Arkansas Securities Department
October 28, 2010
Page 4

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. Definition Exclusion

Sec. 23-42-102(13)(B)(iv) of the Act excludes from the definition of "sale," "sell," "offer" or "offer to sell": Any act incident to a judicially approved reorganization in which a security is issued in exchange for one (1) or more outstanding securities, claims, or property interests, or partly in such exchange and partly for cash.

This exclusion appears to serve the same purpose as the securities registration exemption found under Section 3(a)(10) of the Securities Act of 1933, except that the exclusion specifically refers to a "reorganization."

Arkansas Securities Department

October 28, 2010

Page 5

Generally, the term “reorganization” refers to a proceeding under the federal bankruptcy code. Here, the Rehabilitation is being conducted under the state law equivalent applicable to insurance companies, as insurance companies are ineligible debtors under the bankruptcy code for the purpose of *reorganizing* the financial affairs of Ambac Assurance. Accordingly, it appears that the Rehabilitation proceeding described herein is compatible to the “reorganization” reference in the definition exclusion.

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 respectfully submit that a review by the Court as described herein provides comparable protection as contemplated in the exception under the Act.

B. Broker-Dealer and/or Agent Registration

Under Sec. Sec. 23-42-102(13)(B)(iv) of the Act, the issuance of the Surplus Notes, is excepted from the definition of “sale,” “sell,” “offer,” and “offer to sell” and, therefore, neither the Segregated Account nor any of its “agents” would be required to register as a broker-dealer or as agents, respectively, under the Act.

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 definition exclusion set forth above is 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 registration nor broker-dealer and/or agent registration is necessary for public protection in your jurisdiction based, all or in part, upon the following:

Arkansas Securities Department

October 28, 2010

Page 6

(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;

(i) 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;

(ii) Most of the Claim holders are believed to be QIBs either acting for their own account or pursuant to fiduciary authority;

(iii) 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

(iv) 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 exclusion from the relevant definitions 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 agents 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.

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.



FOLEY & LARDNER LLP

Arkansas Securities Department

October 28, 2010

Page 7

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,

A handwritten signature in black ink, appearing to read "Terry Nelson", written in a cursive style.

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