

August 11, 2011

HAND DELIVEREDWRITER'S DIRECT LINE
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mlynch@foley.com EMAILJody Baux
Ambac Clerk, Dane County Circuit Court
Dane County Courthouse
215 South Hamilton Street
Madison, Wisconsin 53703Re: *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:

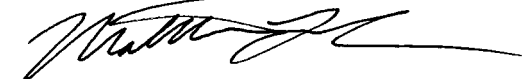
Enclosed for filing in the above-referenced matter are the following documents:

1. Notice of Motion and Motion to Confirm Procedures for Resolving Claims Through Alternative Resolutions Including Synthetic Commutations; and
2. Proposed Order Confirming Procedures for Resolving Claims Through Alternative Resolutions Including Synthetic Commutations.

We have served by email all parties-in-interest on the service list and posted copies on the Court-approved Web site. Thank you for your attention to this matter.

Very truly yours,

FOLEY & LARDNER LLP



Matthew R. Lynch

Enclosures

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

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**NOTICE OF MOTION AND MOTION TO CONFIRM PROCEDURES FOR
RESOLVING CLAIMS THROUGH ALTERNATIVE RESOLUTIONS INCLUDING
SYNTHETIC COMMUTATIONS**

TO: All Parties-in-Interest

PLEASE TAKE NOTICE that the Commissioner of Insurance for the State of Wisconsin, as the court-appointed Rehabilitator of the Segregated Account of Ambac Assurance Corporation (the "Segregated Account"), hereby moves the Court to confirm the procedures by which the Rehabilitator may resolve certain claims against the Segregated Account through an Alternative Resolution (as defined below), including by means of a synthetic commutation. The Commissioner will present this motion before the Honorable William D. Johnston on Wednesday, August 31, 2011 at 9:00 a.m. at the Lafayette County Courthouse, 626 Main Street, Darlington, Wisconsin. It is respectfully requested that any objection to the Motion be filed and served, with a courtesy copy provided to Judge Johnston, by no later than August 26, 2011.

In support of this motion, the Rehabilitator states as follows:

1. On October 8, 2010, the Rehabilitator filed the Plan of Rehabilitation (the "Plan") and a Motion for Confirmation of the Plan with this Court. This Court confirmed the Plan by order dated January 24, 2011 (the "Confirmation Order") finding, among other things, that the Plan is fair and equitable to policyholders.

2. Section 3.06 of the Plan specifically preserved the right of the Rehabilitator to resolve certain claims against the Segregated Account, as follows:

3.06 Alternative Resolutions of Claims. Nothing in this Plan shall limit the ability of the Rehabilitator to resolve any Claim through the arrangement, negotiation, effectuation and execution of an amendment, restructuring, refinancing, purchase, repurchase, termination, settlement, commutation, tender, synthetic commutation or tear-up, or any similar transaction that results in the extinguishment or reduction of the Segregated Account's liability, in respect of, as applicable, (i) all or part of the Policy or Policies, (ii) all or part of the underlying obligation or obligations insured by such Policy or Policies or (iii) the underlying instrument, contract or arrangement, if any, giving rise to such Claim (each, as applicable, an "Alternative Resolution"), subject to the following requirements:

- (a) each Alternative Resolution must not violate the law and must be equitable to the interests of the Holders of Policy Claims generally, as determined in the sole and absolute discretion of the Rehabilitator; and
- (b) the Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution that involves the payment of Cash by the Segregated Account in excess of \$50 million.

3. This Court made the following findings of fact in the Confirmation Order with respect to the authority for the Rehabilitator to enter into Alternative Resolutions (citations omitted):

128. Article 3.06 of the Plan also expressly provides for alternative resolutions for policyholders. This provision recognizes that policyholders are in different economic positions in regard to delays and uncertainties in payment on surplus notes, and the Plan encourages such policyholders to engage with OCI regarding a resolution of their claims that better suits their priorities without providing unfair treatment to other policyholders.

129. OCI supervises and manages the commutation process, while utilizing the policy-level expertise of Ambac as management services provider. One objective of OCI and Ambac in the commutation process is to maximize the return on capital for

Ambac's reserves, which has the effect of increasing the claims-paying resources available to the Segregated Account.

130. OCI's involvement facilitates mutually beneficial settlement among policyholders and the insurer. If policyholders want to settle, OCI has the authority and leverage as Rehabilitator of the Segregated Account and regulator of the General Account to bring the insurer to the settlement table. To date, multiple policyholders have initiated discussions with OCI and Ambac regarding commutations, settlements, amendments, and other alternative resolutions.

4. The Rehabilitator has not designated an effective date for the Plan, as the Rehabilitator is not satisfied that all of the conditions precedent to effectiveness of the Plan set forth in Section 5.01 of the Plan have been satisfied. While the confirmation of the Plan by this Court may in and of itself constitute this Court's confirmation of the procedures pursuant to which the Rehabilitator may enter into Alternative Resolutions as set forth in Section 3.06 of the Plan, given that the Plan has not yet been made effective, the Rehabilitator desires to remove any doubt surrounding this Court's confirmation of such procedures. Accordingly, the Rehabilitator requests that until a procedure by which the Rehabilitator may resolve certain claims against the Segregated Account becomes effective in conjunction with the effective Plan, as may be amended, modified or restated by subsequent order of this Court, this Court confirm that the procedures set forth in Section 3.06 of the Plan are effective, provided that the Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution that involves the payment of Cash by the Segregated Account in excess of \$10 million.

5. The requirement that the Rehabilitator obtain the prior approval of this Court before entering into any Alternative Resolution that involves the payment of Cash by the Segregated Account in excess of \$10 million strikes an appropriate balance between preserving the resources of Ambac Assurance Corporation and the Segregated Account by reducing the time and resources that would be spent seeking court approval of each and every settlement, on the

one hand, while preserving the ability of this Court to review and approve certain material settlements that exceed a specified cash threshold to ensure that policyholders are being treated equitably.

6. Among the Alternative Resolutions that the Segregated Account may enter into are commutations referred to as “synthetic commutations.” The Rehabilitator believes that synthetic commutations will play an important role in the rehabilitation of the Segregated Account, as such transactions allow the Segregated Account to commute a portion of its liability under a single policy that represents an obligation to multiple beneficial holders of the underlying securities insured by such policy. In order to commute the entire liability under any policy that insures underlying securities held by multiple beneficial holders without a synthetic commutation structure, the Rehabilitator would, in many circumstances, need to reach a universal settlement with all beneficial holders. Such an effort would often be impossible because some beneficial holders may be unable or unwilling to settle. In other cases, certain beneficial holders would hold out for additional consideration, rendering settlements dramatically more costly to the Segregated Account, and therefore not in the best interests of policyholders as a whole. By means of a synthetic commutation, the Segregated Account is able to commute its liability to those beneficial holders with which it reaches a settlement, while leaving unaffected the economic value of its policy obligations for the benefit of those beneficial holders with which it did not reach a settlement. Accordingly, the Rehabilitator’s ability to pursue synthetic commutations furthers mutually beneficial settlements among policyholders and the Segregated Account and Ambac Assurance Corporation.

7. A synthetic commutation is accomplished by means of a series of transactions in which the settling beneficial holders of the underlying securities (principal and

interest payments under which are insured by the policy) deposit (or cause to be deposited) their insured securities in a special purpose vehicle (typically a trust or similar vehicle, hereinafter referred to as the “commutation trust”), and in exchange, such settling beneficial holders (or their designees) are issued interests in the commutation trust representing a right to certain proceeds which flow to the deposited security other than proceeds from the policy, and receive certain agreed-upon consideration from the Segregated Account (or Ambac Assurance Corporation). Ambac Assurance Corporation (or the Segregated Account) is issued interests in the commutation trust representing a right to all proceeds from claims payments made under the policy in respect of the securities deposited in the commutation trust (i.e., any policy proceeds paid by the Segregated Account or Ambac Assurance Corporation for the benefit of the deposited security “roundtrip” through the commutation trust to Ambac Assurance Corporation (or the Segregated Account)). This transaction structure separates the value of the Segregated Account’s policy obligation from the value of the deposited security, such that the Segregated Account can commute its policy obligation while allowing the beneficial holder that deposited (or caused to be deposited) the security to maintain its economic interest in the deposited security (but not the policy) through its interest in the commutation trust. An example of this structure is represented graphically on **EXHIBIT A**, attached hereto. Beneficial holders of the insured security that do not agree to the synthetic commutation do not deposit (or cause to be deposited) their insured securities into the commutation trust and accordingly are unaffected by the commutation, as such beneficial holders continue to hold the same insured security with the same economic value provided by the policy.

8. As described above, in connection with a synthetic commutation, the beneficial holders that do not agree to a synthetic commutation, do not deposit (or caused to be

deposited) their insured securities in to the commutation trust or similar vehicle and are entitled to the same benefit under the policy as they would have had the synthetic commutation not occurred. On the other hand, those beneficial holders that agree to a synthetic commutation (and deposit, or cause to be deposited, their insured securities into a commutation trust or similar vehicle), by depositing their insured securities and agreeing to accept interests in the commutation trust representing a right to certain proceeds which flow to the deposited security other than proceeds from the policy, fully and completely terminate and release all obligations of the Segregated Account (or Ambac Assurance Corporation) under or with respect to the policy relating to the insured securities deposited in connection with synthetic commutation, thereby allowing proceeds from the Segregated Account under the policy to flow to Ambac Assurance Corporation (or the Segregated Account) through the commutation trust. While the termination and release of all policy obligations of the Segregated Account in respect of those deposited insured securities subject to a synthetic commutation should in and of itself extinguish the debt of the Segregated Account (or Ambac Assurance Corporation) under or in respect of such policy obligations relating to such deposited insured securities, the Rehabilitator desires to remove any doubt surrounding the effectiveness of such termination and release and corresponding extinguishment of debt. Accordingly, for the reasons set forth herein, the Rehabilitator submits that it is appropriate for the Court to order that all obligations of the Segregated Account (or Ambac Assurance Corporation) with respect to any underlying security which has been deposited, or caused to be deposited, in a commutation trust by a beneficial holder pursuant to the terms of an effective and consummated agreement to settle such obligations through a synthetic commutation structure are fully and completely terminated and released, and any debt owed by the Segregated Account (or Ambac Assurance Corporation) under such policy in

respect of such deposited insured securities is extinguished, and any such beneficial holder shall have no further rights against the Segregated Account (or Ambac Assurance Corporation) under or in respect of such policy.

For the foregoing reasons, the Commissioner requests this Court to enter the accompanying Order Confirming Procedures for Resolving Claims through Alternative Resolutions Including Synthetic Commutations.

Dated this 11th day of August, 2011.

FOLEY & LARDNER LLP

By:

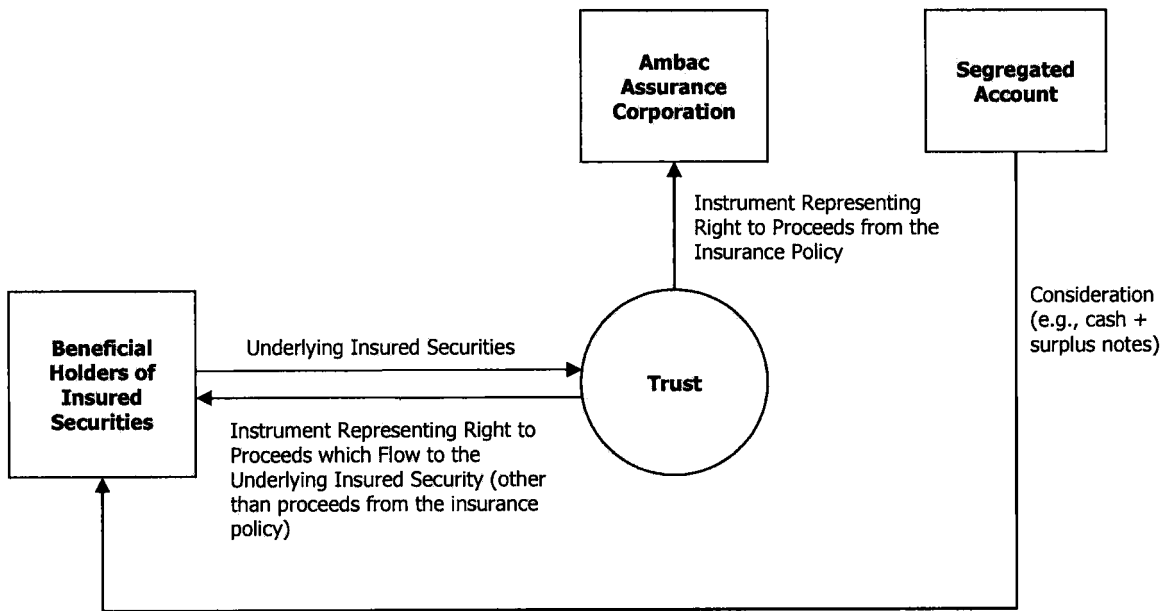


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Counsel for the Rehabilitator

Exhibit A Synthetic Commutation Structure



In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**ORDER CONFIRMING PROCEDURES FOR RESOLVING CLAIMS THROUGH
ALTERNATIVE RESOLUTIONS INCLUDING SYNTHETIC COMMUTATIONS**

Based on the Motion to Confirm Procedures for Resolving Claims Through Alternative Resolutions Including Synthetic Commutations filed by the Commissioner of Insurance for the State of Wisconsin, as Rehabilitator (the "Rehabilitator") of the Segregated Account of Ambac Assurance Corporation (the "Segregated Account"), and the pleadings, motions, briefs and exhibits on file in this case, as well as oral argument, this Court finds that the procedures for resolving claims through Alternative Resolutions (as defined below) as set forth in Section 3.06 of the Plan of Rehabilitation confirmed by order of this Court dated January 24, 2011 (the "Plan") are, as refined by this Order, reasonable and necessary to promote the equitable and orderly rehabilitation of the Segregated Account, a Wisconsin-domiciled insurer under Wis. Stat. § 611.24(3)(e). The Court further finds that the procedures relate to, and are necessary for, the regulation of the business of insurance as part of this proceeding and are authorized by Chapter 645 of the Wisconsin Statutes.

NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that the Rehabilitator's Motion to Confirm Procedures for Resolving Claims Through Alternative Resolutions Including Synthetic Commutations is GRANTED, and the following orders are hereby ENTERED:

1. Until the Plan of Rehabilitation (the “Plan”), as may be modified by subsequent order of this Court, becomes effective, the Rehabilitator may continue to resolve any right to payment from the Segregated Account, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, equitable, legal, secured, or unsecured, and regardless of when such right arises (a “Claim”) through the arrangement, negotiation, effectuation and execution of an amendment, restructuring, refinancing, purchase, repurchase, termination, settlement, commutation, tender, synthetic commutation or tear-up, or any similar transaction that results in the extinguishment or reduction of the Segregated Account’s liability, in respect of, as applicable, (i) all or part of any financial guaranty insurance policy(ies), surety bond(s) or other similar guarantee(s) allocated to the Segregated Account pursuant to the Plan of Operation (a “Policy” or “Policies”), (ii) all or part of the underlying obligation or obligations insured by such Policy or Policies or (iii) the underlying instrument, contract or arrangement, if any, giving rise to such Claim (each, as applicable, an “Alternative Resolution”), subject to the following requirements:

(a) each Alternative Resolution must not violate the law and must be equitable to the interests of persons holding a Claim or Claims under a Policy, including the named beneficiary of such Policy, generally, as the Rehabilitator may determine in his sole and absolute discretion; and

(b) the Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution that involves the payment of cash by the Segregated Account in excess of \$10 million.

2. The portion of the Policy obligations of Ambac Assurance Corporation and the Segregated Account which are the subject of an effective and consummated agreement or other

arrangement to settle such Policy obligations through a synthetic commutation structure are fully and completely terminated and released, and any debt owed by Ambac Assurance Corporation and/or the Segregated Account under such Policy in respect of the insured securities subject to such settlement is extinguished, and any such beneficial holder shall, in respect of such insured securities, have no further rights against Ambac Assurance Corporation or the Segregated Account under or with respect to such Policy. For purposes of this Order, “synthetic commutation structure” means any transaction or series of transactions pursuant to which settling beneficial holders of underlying securities (principal and interest payments under which are insured by a Policy) deposit, or cause to be deposited, such securities in a trust or similar vehicle (hereinafter referred to as the “commutation trust”), and in exchange, such settling beneficial holders (or their designees) are issued interests in the commutation trust representing a right to certain proceeds which flow to the deposited security other than proceeds from the Policy, and receive certain agreed-upon consideration, and Ambac Assurance Corporation (or the Segregated Account) is issued interests in the commutation trust representing a right to all proceeds from claims payments made under the Policy in respect of the securities deposited in the commutation trust.

Dated this _____ day of _____, 2011.

BY THE COURT:

William D. Johnston
Lafayette County Circuit Court Judge,
Presiding by Judicial Assignment Order