

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

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**NOTICE OF FILING OF GUIDELINES GOVERNING CEDED REINSURANCE  
CONTRACTS FOLLOWING 2014 PLAN AMENDMENTS**

PLEASE TAKE NOTICE that on June 13, 2014, the Rehabilitator promulgated the attached Guidelines Governing Ceded Reinsurance Contracts Following the 2014 Plan Amendments (the "Reinsurance Guidelines"). The attached Reinsurance Guidelines have been placed on the court-approved website ([www.ambacpolicyholders.com](http://www.ambacpolicyholders.com)).

Dated this 13<sup>th</sup> day of June, 2014.

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Commissioner of Insurance and  
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**GUIDELINES GOVERNING CEDED REINSURANCE CONTRACTS  
FOLLOWING THE 2014 PLAN AMENDMENTS**

June 12, 2014

Issued by  
The Rehabilitator and the Special Deputy Commissioner  
of the Segregated Account of Ambac Assurance Corporation

On March 24, 2010, the Circuit Court for Dane County, Wisconsin (the “Rehabilitation Court”) entered a rehabilitation order (the “Rehabilitation Order”), granting the petition of the Commissioner of Insurance of the State of Wisconsin to place the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”) into rehabilitation and to appoint the Commissioner as the Rehabilitator for the Segregated Account (the “Rehabilitator”). On January 24, 2011, the Rehabilitation Court entered an order confirming the Plan of Rehabilitation for the Segregated Account (the “Plan”). On April 21, 2014, the Rehabilitator filed his proposed amendments to the Plan (the “Amendments”), together with the Payment Guidelines for Plan of Rehabilitation, as Amended (the “Payment Guidelines”). The Plan, as amended by the Amendments (the “Plan, as amended”), and the Payment Guidelines became effective on the Effective Date.<sup>1</sup>

In order 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 “Ceded Reinsurance Contracts”), the Rehabilitator hereby issues the following procedures and guidelines (as may be amended, modified or supplemented from time to time pursuant to the terms hereof, the “Reinsurance Guidelines”) to the Management Services Provider, AAC and each entity providing reinsurance in respect of policies allocated to the Segregated Account. These Reinsurance Guidelines are being filed with the Rehabilitation Court simultaneously with their posting online at [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com). They shall thereupon be effective.

These Reinsurance Guidelines replace and supersede the Rules Governing Ceded Reinsurance Contracts Following June 4, 2012 Interim Cash Payment Order.

1. As Management Services Provider, AAC will continue to handle the processing of Policy Claims pursuant to the Plan, as amended, and the Payment Guidelines.
2. Pursuant to the Payment Guidelines, 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 15<sup>th</sup>

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<sup>1</sup> Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Payment Guidelines.

day (or if such day is not a Business Day, on the next Business Day) of such month (i.e., the Determination Date).

3. No Policy Claim shall be eligible to be considered a Permitted Policy Claim on a given Payment Date unless it was a Pending Policy Claim 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, unless the Rehabilitator determines otherwise in his sole and absolute discretion.

4. The Management Services Provider, on behalf of the Rehabilitator, shall notify reinsurers of Pending Policy 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 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 e-mail unless a reinsurer requests another method of delivery.

5. Reinsurers shall be permitted to investigate such Pending Policy Claims and interpose defenses as permitted by the applicable Ceded Reinsurance Contracts and in accordance with the procedures described in these Reinsurance 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 the later of (i) 5:00 p.m. on the tenth (10<sup>th</sup>) day of the month (or if such day is not a Business Day, on the next Business Day) following the month in which such Policy Claim was submitted in accordance with Section 1.2 of the Payment Guidelines or (ii) ten (10) days after the Management Services Provider, on behalf of the Rehabilitator, notifies the reinsurer that the Policy Claim has been determined by the Rehabilitator pursuant to his discretion under paragraph 3 above to be a Pending Policy Claim (or if such day is not a Business Day, on the next Business Day), that such reinsurer intends to interpose a defense in respect of such Policy Claim, then the following guidelines shall apply:

(a) The reinsurer and the Management Services Provider shall as soon as reasonably practicable discuss the merits of such defense and share with one another all relevant information related to such defense and the subject Policy Claim, subject to appropriate confidentiality undertakings. The reinsurer shall explain with reasonable particularity the basis for such defense and provide all supporting documents necessary for the Management Services Provider and Rehabilitator to understand and assess the defense.

(b) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the reinsurer agrees with the Rehabilitator and Management Services Provider that no defense should be asserted (or

continue to be asserted) in response to the subject Policy Claim, then the Management Services Provider and the Rehabilitator may determine the subject Policy Claim to be a Permitted Policy Claim in accordance with the Payment Guidelines.

(c) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the Rehabilitator and the Management Services Provider agree that such defense should be asserted (or continue to be asserted) in response to the subject Policy Claim (or a portion thereof, if applicable), the Management Services Provider or the Rehabilitator shall determine that such Policy Claim (or portion thereof, as applicable), is a Disputed Claim in accordance with Section 4.1 of the Payment Guidelines. The Rehabilitator or Management Services Provider shall prepare an Objection to such Disputed Claim on the basis of such defense, and shall provide such reinsurer with a copy of such Objection promptly following the provision of such Objection to the relevant Holder pursuant to Section 4.1 of the Payment Guidelines. 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.

(d) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the Management Services Provider or the Rehabilitator intend to decline to assert the defense raised by the reinsurer, the Management Services Provider or the Rehabilitator shall so notify the reinsurer and the reinsurer may, within ten (10) Business Days of the date of such notification, direct the Rehabilitator and the Management Services Provider in writing to determine that the subject Policy Claim (or portion thereof, as applicable) is a Disputed Claim in accordance with Section 4.1 of the Payment Guidelines. The Rehabilitator or Management Services Provider and the reinsurer (each acting reasonably) shall cooperate to prepare an Objection to such Disputed Claim on the basis of such defense, and the Rehabilitator or the Management Services Provider shall provide such reinsurer with a copy of such Objection promptly following the provision of such Objection to the relevant Holder pursuant to Section 4.1 of the Payment Guidelines. 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.

(e) The failure by the reinsurer to direct the Rehabilitator and the Management Services Provider in writing to determine that the subject Policy Claim (or portion thereof, as applicable) is a Disputed Claim prior to the close of business on the tenth (10<sup>th</sup>) Business Day after the date of notification from the Management Services Provider or the Rehabilitator that it declines to assert the defense raised by the reinsurer pursuant to paragraph 6(d): (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim; and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other

right to inspect records or to raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

(f) Following an Objection to the subject Policy Claim and subsequent response to such Objection by the relevant Holder, if the Management Services Provider or the Rehabilitator intend to decline (or continue to decline) to assert the defense raised by the reinsurer and so notify the reinsurer, the reinsurer may, within ten (10) Business Days of the date on which the reinsurer received such notification from the Rehabilitator or the Management Services Provider, direct the Rehabilitator and the Management Services Provider in writing to determine that such Disputed Claim (or the portion that is not disputed by the Rehabilitator or the Management Services Provider) is fully or partially a Disallowed Claim in accordance with Section 4.1 of the Payment Guidelines. In any subsequent proceeding before the Rehabilitation Court brought by the Holder of such Policy Claim pursuant to Section 4.1 of the Payment Guidelines, the reinsurer shall be permitted to interpose any defense to the subject Policy Claim (or portion thereof) in connection with such adjudication of the subject Policy Claim by the Rehabilitation Court. The Rehabilitator may support such defense to the subject Policy Claim, or may oppose such defense in support of the payment of the subject Policy Claim. If the Rehabilitator supports such defense to the subject Policy Claim (or portion thereof, as applicable) on the basis of the defense raised by the reinsurer pursuant to this paragraph 6(f), the reinsurer shall be permitted the opportunity, at its own expense, to associate with the Rehabilitator in the defense against the subject Policy Claim in any proceeding before the Rehabilitation Court. If the Rehabilitator opposes such defense in support of the payment of the subject Policy Claim (or portion thereof, as applicable), the reinsurer shall have sole responsibility for asserting the defense to payment of the subject Policy Claim in any proceeding before the Rehabilitation Court.

(g) The failure by the reinsurer to direct the Rehabilitator in writing to determine that such Disputed Claim is fully or partially a Disallowed Claim prior to the close of business on the tenth (10<sup>th</sup>) Business Day after the date of notification from the Management Services Provider or the Rehabilitator that it declines to assert or continue to assert the defense raised by the reinsurer pursuant to paragraph 6(f): (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim; and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other right to inspect records or to raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

(h) With respect to such Policy Claim, the reinsurer will be prohibited from raising the same defense 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 Policy Claim.

7. If a reinsurer is notified of a Pending Policy Claim as provided in paragraph 4 hereof, then any failure by such reinsurer to notify the Management Services Provider that it intends to interpose any defense to a Pending Policy Claim by 5:00 p.m. on the tenth (10<sup>th</sup>) day (or if such day is not a Business Day, on the next Business Day) following the month in which such Policy Claim was submitted: (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim; and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further investigate, or to interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other right to inspect records or to raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

8. If the Rehabilitator intends to implement any Alternative Resolution of a Policy Claim or potential Policy 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 Policy Claim or potential Policy Claim and shall be provided with all relevant information relating to the proposed Alternative Resolution, subject to appropriate confidentiality undertakings. If the applicable Ceded 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 Reinsurance Guidelines.

(c) If a reinsurer notifies the Rehabilitator and the Management Services Provider, in the manner provided in paragraph 10 below, within ten (10) days of the date of the Alternative Resolution Notice that such reinsurer intends to interpose a defense in respect of such Policy Claim or potential Policy Claim or Alternative Resolution thereof, 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 Policy Claim. If a timely resolution is not reached, the dispute shall be submitted to the Rehabilitation Court for resolution.

(d) Any failure by a reinsurer to notify the Rehabilitator and the Management Services Provider within ten (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 Policy Claim or potential Policy 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 Ceded Reinsurance Contract to further investigate, or to interpose a defense available to AAC,

the Segregated Account or the Rehabilitator with respect to 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 Ceded Reinsurance Contract or at law.

9. These Reinsurance Guidelines shall control with respect to any inconsistent provisions of the Plan, as amended, that provide or impose rules, procedures, guidelines and/or obligations for, or on, any party with respect to the rights and obligations of the parties under the terms of any Ceded Reinsurance Contract. In the event of any direct conflict between the terms of these Reinsurance Guidelines, on the one hand, and applicable law or the terms of any Ceded Reinsurance Contract, on the other hand, applicable law or the terms of such Ceded Reinsurance Contract, as applicable, shall govern. The failure on the part of a Person to adhere strictly to these Reinsurance Guidelines shall not excuse another Person from performing the obligations required to be performed by it under a Ceded Reinsurance Contract so long as such failure would not be expected to materially harm or prejudice the Person by whom such adherence is sought. These Reinsurance 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 Reinsurance Guidelines shall be effective if delivered in writing by e-mail 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](mailto: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 of intent to interpose a defense provided by reinsurers pursuant to paragraphs 6 or 8 hereof shall be in the form attached hereto as Exhibit A and shall be e-mailed to [claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com).

11. The Management Services Provider and the Rehabilitator shall be entitled to rely upon the contact information previously provided to the Management Services Provider by each reinsurer for the e-mail 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 Reinsurance Guidelines shall be understood to refer to such dates, times and day counts in New York.

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  
E-mail: [claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com)  
Facsimile: (212) 208-3404

With copies to:

- [Reinsurance\\_Communication@ambac.com](mailto:Reinsurance_Communication@ambac.com)
- Manager, Securities Settlements  
E-mail: [OpsGroup@Ambac.com](mailto: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):

*[Explain with particularity the basis for such defense and provide all supporting documents necessary for the Management Services Provider and Rehabilitator to understand and assess the objection.]*

[\_\_\_\_\_]

By \_\_\_\_\_  
Name:  
Title: