September 3, 2010

Gary Gensler
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Gensler:

Thank you for taking the time to meet with us on July 30, 2010 to discuss the impact of Title VII of the Dodd-Frank Act on financial guaranty insurers.

During our conversation on why financial guaranty insurance policies should not be considered swaps or security-based swaps, you asked about the key difference between traditional financial guaranty insurance policies and "swaps" under the Dodd-Frank Act.

We have prepared the enclosed comparison to show the clear distinctions between the two. In addition to those distinctions, we believe that statements made by legislators during the Dodd-Frank Act debate indicate that Title VII's purpose is to establish a regulatory framework for the previously unregulated over-the-counter derivatives market and not to displace the existing state insurance regulatory framework.

Further, unlike the over-the-counter derivatives markets, the financial guaranty insurance industry is already subject to extensive regulation at the state level, most notably by the New York State Insurance Department. Those rules include market conduct rules, financial reporting, contingency reserves, single and aggregate risk limits, diversified investments and regulatory examinations.

We hope that you find this comparison useful in recognizing the differences between financial guaranty insurance and the scope of "swaps" to be regulated as over-the-counter derivatives. We appreciate the opportunity to engage you and your staff in this dialogue, and welcome the chance to continue our discussion, including discussing the enclosed in greater detail.

Sincerely yours,

James M. Michener
General Counsel

Enclosure

cc: Terry Arbit
Cyrus Amir-Mokri
Tim Karpoff

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Traditional Financial Guaranty Insurance Policies Should Not be Regulated as Swaps – Key Differences

ASSURED GUARANTY®
FAMILY OF COMPANIES

	Financial Guaranty / Surety Policies	Traditional CDS
Purpose:	Core business is the insurance of municipal bonds Municipal bond insurance serves a substantial public purpose by facilitating the ability of municipal issuers to access the capital markets and lowering their borrowing costs	Enables buyers of protection to hedge exposure with sellers of protection and enables buyers to take a position on an obligation without owning it
Ownership of Insured Obligation:	Beneficiaries of insurance policies are required to have an insurable interest	Buyers of protection are not required to hold the insured obligation; ability to execute transaction synthetically results in possibility of outstanding swap notional vastly exceeding principal amount outstanding of reference obligation
Legal Rights:	Insurers typically have direct control, information and inspection rights in transaction documents for insured obligations, including opportunities to participate in workouts, as well as rights as third party beneficiaries of representations and warranties and covenants	Sellers of protection derive their rights through the buyers of protection

Traditional Financial Guaranty Insurance Policies Should Not be Regulated as Swaps – Key Differences (continued)

ASSURED GUARANTY®
FAMILY OF COMPANIES

	Financial Guaranty / Surety Policies	Traditional CDS
Risk of Acceleration:	There can be no acceleration of the payment required to be made under a policy except at the sole option of the insurer	Physical settlement of entire notional amount of swap may be required upon any Failure to Pay
Termination Payments:	Insurers are not subject to the risk of destabilizing mark-to-market termination payments on an insurance policy – concept does not apply	Risk of mark-to-market termination payments exists
Accounting Treatment:	Financial Accounting Standards Board issued separate guidance on accounting for financial guaranty insurance (ASC 944, “Financial Services – Insurance”) and accounting for CDS (ASC 815, “Derivatives and Hedging”) Requirements to apply different methodology, including for premium revenue recognition and claim liability measurement	
Market Perception:	Market participants do not consider financial guaranty insurance policies to be swaps or security-based swaps	