STATE OF NEW YORK
INSURANCE DEPARTMENT
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Circular Letter No. 19 (2008)
September 22, 2008

TO: All authorized financial guaranty insurers
RE: "Best practices" for financial guaranty insurers

STATUTORY REFERENCES: New York Insurance Law §§ 107, 201, 301, 307, 1101, 1102, 1301, and 1402; and Article 69.

I. PURPOSE

The New York State Insurance Department ("Department") is the primary regulator for most United States financial guaranty insurance companies ("FGIs"), and those that are not legally domiciled in New York are licensed to issue financial guaranty insurance under Article 69 of the New York Insurance Law. FGIs issue policies on two main classes of securities: municipal bonds and asset-backed securities ("ABS"). For over 35 years financial guaranty insurance has reduced borrowing costs for issuers of debt instruments in the United States and worldwide. The Department's aim is to ensure that all consumers – individuals, businesses, and government entities – continue to have access to the benefits of financial guaranty insurance in a financially healthy and competitive insurance marketplace.

The marketplace places a value on the insurance policies issued by FGIs, based on the financial strength ratings issued by nationally recognized statistical rating organizations ("NRSROs") such as Moody's, Standard & Poor's, and Fitch. For decades, both the market and the NRSROs viewed FGIs as having a near "zero underwriting loss" business model because FGIs primarily guaranteed municipal and state government-issued securities and ABS with low historic default rates. But in recent years, FGIs insured markedly more risky non-governmental structured securities, many of which are backed by portfolios of residential real estate loans. As the value of the real estate supporting these structured finance transactions began to decline significantly in 2007, the value of the structured finance obligations supported by these debts (particularly sub-prime debt) also dropped precipitously. Consequently, by mid-2008, the NRSROs had lowered the ratings for virtually all of the FGIs, even those with less exposure to risky mortgage-backed securities.

In the fall of 2007, the Department developed a three-part plan to address the serious challenges recently faced by the bond insurance industry. The Department thus has:

1. Encouraged the entry of additional, well-capitalized insurers into the FGI market and facilitated capital raising by existing insurers.

2. Protected policyholders and the public by helping financially distressed FGIs to develop workable solutions to stave off adverse financial impact and further ratings deterioration.

3. Worked to develop new standards to which the financial guaranty business should adhere.

This Circular Letter advances the goals of the third part of the plan by setting forth the Department's key concerns with how FGIs have conducted their businesses to date, and by outlining "best practices" to which the Superintendent, on a prospective basis, expects FGIs to adhere, beginning January 1, 2009.

II. BACKGROUND

In the early years of the business, FGIs mainly provided insurance, or "wraps," for the debt offerings of municipalities, states, or other public entities. These wraps "enhanced" the quality of the issuer's credit rating (if any). Under a typical policy, if the issuer fails to make all or any part of a scheduled payment, the FGI pledges to make interest and principal payments to bondholders as scheduled. For wrapped bonds, the rating agencies confer the rating of the FGI on the issue. Until the recent turmoil, bond insurance enabled issuers to sell their bonds into debt markets at a triple-A rating – often at substantially lower interest rates than the issuer would otherwise pay. The availability of bond insurance for the municipal market reduced the cost to taxpayers of issuing debt to finance infrastructure and public projects supported by taxes or other revenue streams. The benefit of FGI policies for new bond issuances has diminished with the recent ratings downgrades of FGIs by NRSROs.

In the 1980s, the FGIs began to insure securitized debt, particularly securities based on pools of loans and mortgages. In the years that followed, securitization became increasingly complex, and new securities issued to investors became further removed or disintermediated from their supporting collateral. These new securities were generally backed by pools of securities based on portfolios of loans, referred to generically as collateralized debt obligations ("CDOs") of ABS - or ABS CDOs. One type of security – known as CDOs squared – was backed by multiple CDOs of ABS. The CDOs or CDOs squared were divided into tiers, or "tranches." The highest tranches were the most secure (i.e., they were paid first from proceeds of the underlying ABS securities), had the lowest risk of default, and were typically rated triple-A or higher ("super-senior") by the NRSROs. Subordinated tranches were riskier and were assigned weaker or lower ratings. For the most part, FGIs issued policies on CDO tranches rated triple-A, or "super senior".

In reaction to declines in home prices and increasing mortgage defaults in the past year, the three major NRSROs substantially lowered the ratings on thousands of mortgage-backed securities. The NRSROs (and other observers) have come to expect much higher losses on mortgage-backed securities than originally anticipated. Indeed, many financial guaranty policies have begun incurring losses, which requires FGIs to pay claims.

Although the NRSROs that rate FGIs employ different assumptions and methodologies, the general rule is that an FGI must, in order to maintain a triple-A rating, maintain claims paying resources that are a multiple of the amount needed to pay all future losses under highly stressful market circumstances. Accordingly, as the expected losses on ABS have grown, the NRSROs substantially increased the amount of resources required for the FGIs to maintain their coveted triple-A ratings. Indeed, most FGIs have been unable to meet the new (and frequently changing) targets required by the NRSROs, which has led to the ratings downgrades.

Many of the policies that FGIs sold in the structured finance marketplace backed commitments by affiliated special purpose vehicles ("SPV" or "transformer") that entered into credit default swaps ("CDS") with banks and securities firms. A CDS transfers credit and default risk from one counterparty ("protection buyer") to the other ("protection seller"). The large financial institutions that buy protection must, under accounting rules, periodically take into account changes in the values of the underlying obligations on which CDS protection is purchased (a process known as "mark-to-market"). The credit protection offers a hedge that reduces or eliminates the day-to-day volatility in the value of the underlying obligation. These hedged positions receive favorable accounting treatment from regulators and other authorities.

In accordance with Article 69 of the Insurance Law, the FGIs establish and control minimally capitalized SPVs which function as protection sellers for CDS. The SPVs, as CDS protection sellers, can offer certain contract terms that cannot be legally included in policies issued directly by an FGI. If a credit event occurs, the SPV is obligated to pay as counterparty. If the SPV fails to pay, the FGI will then be required to pay under its guarantee of the SPV counterparty obligations, even though the credit event triggering the SPV's requirement to pay may have been beyond the scope of risks that can be guaranteed by an FGI policy.

The obligation of an FGI to make a payment in accordance with its guarantee of an SPV under a CDS does not necessarily require a default by the reference security in payment of principal or interest (as is the case with municipal bonds), and can include any "credit event" or "termination event" specified by the terms of the CDS. "Credit events" include restructuring, repudiations or moratoriums, and entry into bankruptcy proceedings if the CDS uses the credit derivative definitions set forth in the 2003 ISDA Master Agreement published by the International Swap and Derivatives Association, Inc. ("ISDA"). In 2005, ISDA published a pay-as-you-go ("PAUG") master agreement with general terms that are much closer to those set forth in a typical FGI policy.

III. REGULATION OF FINANCIAL GUARANTY INSURERS

The regulation of FGIs in New York is principally governed by Article 69 of the Insurance Law, which applies exclusively to FGIs. Article 69 sets forth a series of specialized and highly technical requirements intended to safeguard the financial solvency of FGIs authorized to do business in this State. These include:

- Minimum capital: The minimum initial capital and surplus requirement for an FGI is $75 million, and at all times an FGI must maintain a policyholders' surplus of at least $65 million.[1]

- Contingency reserves: In addition to the minimum surplus to policyholders, an FGI is required to maintain a contingency reserve.[2] This reserve is based upon the greater of 50% of premiums written for each category of security guaranteed or a sum arrived at by multiplying specific factors by the principal amount of each class of security guaranteed. The amounts are based upon both the principal guaranteed and the relative risk of the type of bond, with municipal bonds receiving the lowest factor and non-investment grade securities receiving the highest.

- Aggregate risk limitations: An FGI is limited in the amount and type of securities that it may insure, based upon its surplus to policyholders and contingency reserves. See Insurance Law § 6904(d).

- Single risk limitations: Exposure on any one risk is limited, net of collateral and reinsurance, to a percentage of the aggregate of the insurer's surplus to policyholders and contingency reserves. See Insurance Law § 6904(d).

- Limitation on non-investment grade securities: At least 95% of the municipal obligation bonds, special revenue bonds and industrial development bonds insured by an FGI must be "investment grade."[3]

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[1] "Capital" is defined by Insurance Law § 107(a)(12) to mean, when used in reference to a stock insurance company, the aggregate par value of all classes of shares of capital stock issued and outstanding. "Surplus to policyholders" is defined by Insurance Law § 107(a)(42) to mean the excess of total admitted assets over the liabilities of an insurer, which is the sum of all capital and surplus accounts minus any impairment thereof. "Admitted assets," pursuant to Insurance Law § 107(a)(3), is defined by the detailed provisions of Insurance Law § 1301. See also Insurance Law § 6902(b).

[2] "Contingency reserve" is defined by Insurance Law § 6901(j) to mean an additional liability reserve established to protect policyholders against the effects of adverse economic developments or cycles or other unforeseen circumstances. See also Insurance Law § 6903(a).

[3] "Investment grade" is defined by Insurance Law § 6901(n) to include:

> (1) the obligation or parity obligation of the same issuer [that] has been determined to be in one of the top four generic lettered rating classifications by a securities rating agency acceptable to the superintendent;

IV. BEST PRACTICES

In light of the current economic environment, the Department has closely examined the existing statutory and regulatory structure that applies to FGIs and formulated "best practices" set forth below, to which the Superintendent, on a prospective basis, expects FGIs under the jurisdiction of the Department to adhere, beginning January 1, 2009. The Department intends to promulgate regulations or seek legislation, as necessary, to formalize these guidelines.

A. Insurance for CDOs of ABS

FGIs should restrict significantly the issuance of policies that back CDOs of asset-backed securities ("ABS"). The ability of FGIs to guarantee these securities derives from the reference to "pools" in the definition of "asset-backed securities" in Insurance Law § 6901(e)(1). Yet, no specific provision in the Insurance Law expressly authorizes FGIs to insure ABS that are collateralized by successive pools of ABS, so as to create several tranches of securitizations between the debt security insured by FGIs and the mortgage or other obligation ultimately backing the security. These multi-tranched obligations, sometimes referred to as CDO-squareds, are inherently riskier and unpredictable than an ABS that is no more than one layer removed from the underlying debts or obligations. Indeed, the recent turmoil in the financial markets amply demonstrates that even highly sophisticated participants in the CDO of ABS market are simply unable to adequately evaluate the risk assumed when FGIs insure structures that are substantially separated from the underlying obligations.

Accordingly, FGIs should not insure pools of ABS that are comprised or include portions of other pools of ABS unless:

- The insurance policy provides that the FGI holds an unsubordinated, senior position, provided such position has an investment rating of single-A or above;

- The pool consists solely of asset-backed securities that are issued or guaranteed by a government-sponsored enterprise, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, the Federal Agricultural Mortgage Corporation, or the Farm Credit Insurance Fund;

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(2) the obligation or parity obligation of the same issuer has been identified in writing by such rating agency to be of investment grade quality; or

(3) if the obligation or parity obligation of the same issuer has not been submitted to any such rating agency, the obligation is determined to be investment grade (as indicated by a rating in category 1 or 2) by the Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("NAIC").

See also Insurance Law § 6904(b)(2).

- The pool consists entirely of the portion of other pools of asset-backed securities that are already insured by the FGI, so that no additional obligations are incurred by that FGI; or

- The Superintendent has determined that the insurance is without undue risk to the FGI, its policyholders, and the people of the State of New York.

B. Credit protection for CDS

In 1997, the Department's Property Bureau addressed whether an FGI may lawfully provide a financial guaranty policy with respect to the payment obligations of an affiliated transformer under the terms of a CDS. The Department concluded that the proposed guarantee was "substantially similar" to a direct guarantee of the underlying obligation protected by the CDS, and thus permissible under Insurance Law § 6904(b)(1)(J). Accordingly, the Department did not object to such "back-to-back" transactions, provided that:

- The FGI underwrote policies guaranteeing CDS using its customary underwriting criteria;

- The duration of the CDS did not exceed five years;

- The security referenced in the CDS was rated at least investment grade;

- If the referenced security was a municipal bond, the FGI adhered to the risk limitations and reserve requirements applicable to investment grade corporate obligations; and

- The FGI complied with holding company requirements set forth in Article 15 of the Insurance Law, as well as annual statement reporting requirements.

In 1999, the Department's Property Bureau issued another letter concluding that: (1) guarantees of termination payments (payments required under a CDS upon the occurrence of a specified "termination event," such as a payment default, insolvency, or a downgrade of the reference security's credit rating) were not impermissible "acceleration payments" prohibited under Insurance Law § 6905; and (2) pools of CDS obligations ("credit default pools") can be regarded as "asset-backed securities" under Insurance Law § 6901(e) (and, accordingly, were "permissible guarantees" under Insurance Law § 6904(b)).

After the release of the Department's letters, as well as an opinion from the Deparrtment's Office of General Counsel ("OGC") dated June 16, 2000, FGIs wrote numerous financial guaranty insurance policies that provided credit protection for CDS referencing collateralized debt obligations and pools of other credit default swaps. Generally, these CDS were written by transformers acting as protection sellers to counterparty banks and securities firms. That activity expanded after the Legislature codified the position reflected in the two Department letters by amending Article 69 of the Insurance Law in 2004. The amendment

redefined "asset-backed securities" to expressly permit policies on CDS referencing a pool of obligations or pools of CDS. The amendment also added the following definition of CDS to Insurance Law § 6901(j-1):

> [A]n agreement referencing the credit derivative definitions published by the International Swap and Derivatives Association, Inc., pursuant to which a party agrees to compensate another party in the event of a payment default by, insolvency of, or other adverse credit event in respect of, an issuer of a specified security or other obligation; provided that such agreement does not constitute an insurance contract and the making of such credit default swap does not constitute the doing of an insurance business.

Thus, provided that the making of the CDS itself "does not constitute the doing of an insurance business," Insurance Law § 6901(j-1) expressly permits FGIs to issue insurance policies that guarantee payments by transformers or other parties pursuant to such a CDS.

With today's Circular Letter, the Department clarifies that to the extent that the making of the CDS itself may constitute "the doing of an insurance business" within the meaning of Insurance Law § 1101, then the protection seller should consider seeking an opinion from the Department's Office of General Counsel to assess whether the protection seller should be licensed as an insurer pursuant to Insurance Law § 1102. Although OGC's June 16, 2000 opinion suggests that a CDS is not an insurance contract if the payment by the protection buyer is not conditioned upon an actual pecuniary loss, that opinion did not grapple with whether, under Insurance Law § 1101, a CDS is an insurance contract when it is purchased by a party who, at the time at which the agreement is entered into, holds, or reasonably expects to hold, a "material interest" in the referenced obligation. That omission will be rectified and addressed in a forthcoming opinion to be prepared by OGC.

As noted above, FGI policies on CDS have exposed FGIs to certain risks that they have proved ill-equipped to underwrite or otherwise address effectively. Recent experience has shown that guarantees of CDS for which the FGI uses an SPV as a nominal counterparty are not consistent with the prudent operation and regulation of an FGI. Because the SPV has no financial capacity to make the payments possibly required of a counterparty to a CDS, the guarantee by the FGI of the SPV's failure to pay is equivalent to the FGI being the counterparty itself. Further, the financial obligations incurred by the SPV as a CDS counterparty (and guaranteed by the FGI) can be unexpectedly large for two primary reasons. First, mark-to-market accounting rules have forced SPVs as protection sellers (and thus their controlling FGIs) to take on additional risk when the value of CDS changes in the hands of protection buyers. Second, the terms of most CDS can trigger (or "accelerate") the SPV's liability as protection seller (and thus the guarantee of its controlling FGI) more easily than the relatively rare bond default produced by an issuer's failure to pay. Such features of CDS guarantees lead to an unusual degree of uncertainty as to likelihood and scale of CDS liabilities the FGIs ultimately guarantee. Both risks are not common to more conventional policies on municipal bonds or single-pool ABS.

The use of SPVs as nominal counterparties is, however, only one element of the Department's larger concerns with respect to the guarantees of CDS obligations by FGIs. To ensure that FGIs are able to manage the risks associated with CDS transactions prudently and equitably, the Superintendent expects FGIs to limit their issuance of policies on CDS to transactions where:

- The FGI guarantees only those risks specified in Insurance Law § 6901(a)(1)(A), namely, only failures to pay obligations when due or payable when the failure is the result of a financial default or insolvency;

- Neither the CDS agreement under which one counterparty sells protection to the other, nor the contract under which the insurer guarantees payment by the protection seller, defines a credit event, termination event, or event of default to include a change in the credit quality, rehabilitation, liquidation or insolvency of the FGI providing credit support for one of the CDS counterparties; and

- Neither the terms of the CDS agreement nor the contract under which the FGI provides its guaranty requires the insurer to post collateral.

Regulations that the Department intends to promulgate will propose to limit the definition of "credit event or termination event" with respect to guarantees of credit default swaps pursuant to Insurance Law § 6905(a).

The Superintendent intends these limitations to confine FGI participation in the CDS market to those transactions in which the insurers' risk is roughly comparable to the amount and timing of risks assumed when directly insuring bonds. These restrictions are intended to preclude the possibility that CDS counterparties will present claims ahead of other insured parties or otherwise gain a preferred position as a consequence of the Superintendent pursuing rehabilitation or liquidation against an FGI in accordance with Article 74 of the Insurance Law.

C. Concentrations of risk

Insurance Law § 6904(d) sets forth single risk limits intended to limit the exposure of the FGI to any one risk or group of risks. Obligations with respect to a "single entity," a single revenue source, a particular category of obligation, or some combination thereof cannot exceed ten percent of the aggregate surplus and contingency reserves, using debt service and principal as the measure.

In the Department's estimation, it is insufficient, particularly when examining pools of asset-backed securities, to view "single entity" as referring only to the issuer of the security if the insurer is to ensure adequate diversification of risk. Further, the guarantee of pools of ABS has made possible additional concentration risks, including the identity of the original lender, servicer, seller or sponsor, or the year in which the obligation originated (the "vintage"). Consequently, a focus on the nominal issuer of a pooled obligation or series of obligations has proven inadequate.

Accordingly, in determining how to define the "single entity" when calculating risk limits, FGIs should include not only the issuer of the debt, but also the initial lender and servicer of each category of obligation (such as consumer debt obligations or obligations secured by residential real estate), regardless of the type of underlying collateral. In addition, each FGI should advise the Department promptly if its exposure to a particular category of debt or obligations that are issued within a particular calendar year ("vintage") exceeds the limits prescribed by Insurance Law § 6904(d)(2), and promptly explain to the Department in writing any actions the FGI intends to take (or has taken) to reduce its exposure to that category of risk.

D. Non-investment grade credit risk and monitoring

Insurance Law § 6904(b)(2) requires that an FGI's portfolios of insured municipal, special revenue, or industrial development bonds be at least 95% investment grade (as defined by Insurance Law § 6901(n)), based on a measurement of aggregate net liability.

The Department, during its statutorily required reviews, will monitor the insurer's remaining portfolio and expects that the balance of an FGI's business – i.e., structured finance – also will meet the 95% investment grade standard; unless the insurer can demonstrate that a lower standard is not detrimental to its policyholders and the people of this State.

If, absent an approved request for exception, an FGI's entire insured portfolio drops below 95% investment grade (as measured by aggregate net liability) for at least thirty days, then the insurer should promptly explain to the Department in writing any actions the FGI intends to take (or has taken) to meet that standard.

The extension of the 95% investment grade standard to the entire business of an FGI will provide additional assurance to FGI's policyholders and the public that the quality of the FGI's business is investment grade.

E. Restatement of appropriate underwriting and risk management standards

Insurance Law § 6902(a)(3) requires a new entrant into the business of financial guaranty insurance to submit a plan of operation to the Superintendent for approval. That plan must detail:

> [T]he types and projected diversification of financial guaranty insurance policies that will be issued, the underwriting procedures that will be followed, managerial oversight methods, investment policies, and such other matters as may be prescribed by the superintendent.

The Department has found that, once licensed, FGIs sometimes have not adequately incorporated these initial plans into their ongoing business operations, or have not revised the initial guidelines over the course of time.

Further, the statute's reliance upon specific numerical requirements regarding surplus and reserves or aggregate and single risk limits has proven inadequate. Strict adherence to bright-line requirements that cannot anticipate all possible situations is a poor substitute for diversification, proper underwriting procedures, managerial oversight methods, and investment policies. Accordingly, an FGI should maintain:

- Sufficient liquidity to pay claims, including extreme stress scenarios;

- Appropriate risk underwriting policies, criteria, and procedures: to ensure that any transaction underwritten demonstrates sufficiently low levels of risk of default or severity of loss, such that actual losses on, or ratings downgrades of, transactions or sectors within the FGI's portfolios do not significantly erode capital strength; to ensure appropriate pricing and accurate estimate of anticipated losses; and to use dynamic risk modeling and management thereafter; and

- Sufficient control and remediation rights to mitigate the potential severity of any loss.

This clear statement of the continuing obligation of FGIs to manage risk prudently is intended to reverse a trend of apparently inadequate underwriting standards and incautious business practices.

F. Increased capital and surplus requirements

The amounts of paid-in capital and paid-in surplus that an FGI must maintain to transact business have not changed since 1989. Although such amounts may have been adequate nearly two decades ago, they are no longer sufficient to support the obligations undertaken by even the smallest FGI. Accordingly, the Department intends to seek a change in Insurance Law § 6902(b)(1) to increase the amount of paid-in capital from at least $2,500,000 to at least $15,000,000, and paid-in surplus from at least $72,500,000 to at least $165,000,000. Further, the Department intends to seek an amendment to Insurance Law § 6902(b)(1) to increase the amount of minimum surplus to policyholders that a financial guaranty insurer must maintain from at least $65,000,000 to a figure in excess of $150,000,000.

Pending any change in the statute, however, the Superintendent expects all FGIs to maintain these higher levels of paid-in capital and paid-in surplus so as to enhance their ability to obtain new business.

G. Increased capital for insurance that includes operating leverage

Governmental entity obligations are generally insured in their entirety by a single FGI (subject to subsequent or concurrent reinsurance agreements). In contrast, asset-backed securities often are split horizontally into tranches of different quality or with differing terms, the

insurance of which may bear disparate risks, even if the tranche insured is itself nominally investment grade.

If credit events, termination events or defaults (depending upon the chosen terminology) occur, losses are incurred beginning at the lowest quality tranche of the obligation. Severe stress can, however, mean that losses eventually reach even into the tranches assumed to be investment grade. These losses will disproportionally affect insurers who guarantee only a portion of the tranches at the bottom of the investment grade tranches. Because of this layering, an insurer that guarantees payment for all of the investment grade tranches of an obligation bears less risk as a percentage of its guarantee than an insurer that guarantees only the more junior investment-grade, or so-called "mezzanine," tranches.

The minimum levels of capital and surplus ordinarily required under Insurance Law § 6904(c) do not accurately reflect the increased operating leverage and greater risk of loss associated with financial guaranty insurance policies issued with respect to more junior tranches of obligations. Other than for the super-senior tranches (or junior tranches for which the insurer also insures all senior tranches of that obligation), the Superintendent expects FGIs to maintain capital and contingency reserves no less than the greater of 300% of the amount required for that tranche, or the capital and contingency reserves for all tranches senior to that tranche that are not already insured by the insurer.

This methodology is intended to account more accurately for the higher risks associated with the guaranty of junior tranches.

H. Additional regulatory and reporting requirements

The Department is taking other steps to strengthen its ability to oversee the activities of FGIs. To that end, FGIs will be required by regulations to report any failure to maintain the standards set forth in this Circular Letter and, among other items, to report:

- The basis for material declines in policyholder surplus (i.e., 5% or more for insurers with less than $500 million at the end of the previous quarter, and 20% or more for insurers with $500 million or more of policyholder surplus).

- When the notional value of the insurer's aggregate liabilities on its guaranteed obligations gross of liabilities assumed and net of, or without regard to, liabilities assumed, rise above multiples of policyholder surplus and contingency reserves:

- On a periodic basis, all guaranteed obligations by fair value, gross and net par outstanding and debt service insured, vintage, category or class, and CUSIP[4] or

[4] The acronym "CUSIP" refers to both the Committee on Uniform Security Identification Procedures and the 9-character alphanumeric security identifiers that they distribute upon request for all North American securities. CUSIPs are widely used within the securities industry to facilitate the clearance and settlement of trades. The CUSIP distribution system is owned by the American Bankers Association and is operated by Standard & Poor's.

comparable identification to make the data sufficiently transparent to be properly evaluated by the Department for degree of risk.

- All guarantees and insurance contracts entered into between insurers and related SPVs.

These changes, which the Department intends to move to formalize through regulations, are intended to improve the quality and quantity of information available to the Department in its evaluation of any FGI's ability to conduct business in accordance with statutory and regulatory requirements.

Further, the Department intends to engage in more frequent, targeted examinations of FGI-risk management systems, and to examine the quality of obligations guaranteed, as well as the quality of assets held, by FGIs. Moreover, the New York addendum to the annual statement will henceforth require enhanced identification of risk for all guaranteed securities, including those held in asset-backed securities.

V. REQUIRED ACKNOWLEDGMENT

Every authorized FGI must acknowledge receipt of this Circular Letter, in writing, within 15 calendar days of the date of this Circular Letter. The acknowledgment, and any questions regarding this Circular Letter, should be directed to Associate Tax Counsel Ann H. Logan at alogan@ins.state.ny.us or (212) 480-6297.

Sincerely,

Eric R. Dinallo
Superintendent of Insurance