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ASSOCIATION OF FINANCIAL GUARANTY INSURERS

Unconditional, Irrevocable Guaranty ®

December 1, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Release No. 33-9204; 34-64372; File Number S7–16–11, Product Definitions (the **"Product Definitions Release"**)

Dear Ms. Murphy and Mr. Stawick:

The Association of Financial Guaranty Insurers ("**AFGI**") appreciates the opportunity to provide the Commodity Futures Trading Commission (the "**CFTC**") and the Securities and Exchange Commission (the "**SEC**" and, together with the CFTC, the "**Commissions**") with its supplemental comments on the definitions of "swap" and "security-based swap" (which we refer to collectively as "swaps" unless the context indicates otherwise) pursuant to Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"). AFGI is the trade association for financial guaranty insurers and reinsurers. AFGI provided its initial comments on the Products Definition Release by letter dated July 20, 2011 (the "Initial Letter").

AFGI's Initial Letter advocated that the Commissions endorse a "bright line" exemption for insurance policies issued by insurance companies subject to U.S. state regulation akin to the exemption for insurance policies provided under Section 3(a)(8) of the Securities Act of 1933. In its Initial Letter, AFGI expressed concern that the additional requirements for an exemption for financial guaranty insurance proposed in the Product Definitions Release created legal uncertainty that is unwarranted given the business currently conducted by financial guaranty insurers, which consists predominantly of the insurance of U.S. domestic municipal bonds. This uncertainty will impose significant burdens on financial guaranty insurers that insure municipal bonds.

Such burdens will (a) increase instability in the currently fragile municipal bond market and (b) decrease the availability or attractiveness of bond insurance to municipal issuers that would otherwise save money by employing bond insurance.

In order for the Commissions to properly consider the economic implications of the proposed rule, this supplemental letter is provided to emphasize the following:

- Financial guaranty insurance written today is comprised predominantly of the insurance of U.S. domestic municipal bonds.

- Since 2009, financial guaranty insurers have ceased insuring credit default swaps other than (in very limited instances) in connection with remediation activities.

- Municipal bond insurance may include insurance of a municipal issuer's obligations under an interest rate swap or, in more limited cases, a currency swap.

- Issuance of financial guaranty insurance is generally accompanied by legal opinions addressing, among other things, compliance with applicable law. The proposed additional requirements for a Dodd-Frank Act financial guaranty insurance exemption will make these legal opinions more difficult and expensive to render. Absent availability of suitable legal opinions, municipal issuers will be unable to avail themselves of the cost savings from using bond insurance.

- Municipal bond insurance facilitates affordable financing and improved market access for municipal and other issuers in sectors serving a substantial public purpose, including issuers in the education, utility, housing, healthcare and transportation sectors. Financial guaranty insurance allows municipal and other issuers to reduce their borrowing costs insofar as the interest rate savings from using the insurance exceeds the premium paid to the insurer for providing its insurance. Investors in insured bonds benefit from the financial guaranty as well as the underwriting, surveillance and remediation services provided by the insurer.

- In the last calendar year, financial guaranty insurance is estimated to have reduced municipal issuers' borrowing costs in the range of $200 million dollars. In prior years, savings to municipal issuers were considerably higher.

We thank the Commissions for the opportunity to comment on these matters. If you have any questions or require any additional information, please do not hesitate to contact me at bstern@assuredguaranty.com or (212) 339-3482.

Very truly yours,

Bruce E. Stern,
Chairman