ALERTS

# ‘Redemption Option Value’: Mandatory Distributions to Out-of-the-Money Stakeholders

**February 5, 2015**

On Dec. 8, 2014 the American Bankruptcy Institute Commission to Study the Reform of Chapter 11 (the “Commission”) issued its 2012-2014 Final Report and Recommendations (the “Report”), proposing numerous changes to Chapter 11 of the Bankruptcy Code. This *Alert*, which is one of a series published by Schulte Roth & Zabel that analyzes the Report, focuses on the Commission’s proposal to compel senior creditors to pay a mandatory “tax,” or so-called “redemption option value,” to junior stakeholders. Simply put, this proposal, if enacted, would force senior creditors to give a portion of the value of their collateral to out-of-the-money stakeholders *even if* the senior creditors are *not* being paid in full. The proposal is a significant departure from fundamental bankruptcy principles, including the “absolute priority rule,” and would in many cases impair the expected recoveries of secured creditors.

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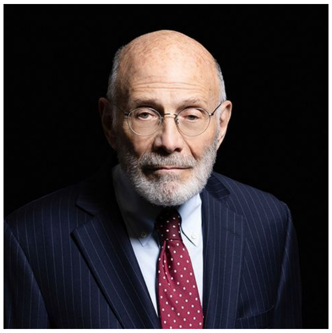

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