

## **SUBSTANTIVE CONSOLIDATION**

Substantive consolidation represents a potentially more meaningful deviation from the distribution of value according to absolute priority

Entities of a corporate group may be treated as a single consolidated entity for the purposes of reorg

Eliminates the credit support provided by unsecured guarantees

Eliminates the pledge of intercompany loans or subsidiary stock

Dilutes the recovery of prospects of creditors who relied on these features

Benefits creditors who did not rely on these features

Even the threat of substantive consolidation may result in a negotiated settlement that could affect recovery distribution

It is a discretionary judicial doctrine that is only relevant in certain situations

Difficult to predict whether any party would seek to ask a bankruptcy court to apply it in a specific case

Difficult to assess the likelihood of success

