

Knowledge Bank 4

COMPANY VOLUNTARY ARRANGEMENT (CVA)



A Company Voluntary Arrangement (CVA) allows an insolvent company to reach an agreement with its creditors to delay or compromise the payment of its debts.

When a company is unable to repay its debts in full due to cash flow problems, a CVA allows a company to propose repayments in line with what they can afford or an alternative method to compromise the debts, which may involve the injection of third party funds.

OBJECTIVES OF A CVA

- To give a company more time and legal protection from its creditors to sort out its financial affairs
- To give creditors and other stakeholders a better financial outcome than if the business went into liquidation
- To protect the company against on-going enforcement action after the CVA has been approved and its terms are being adhered to.

WHO CAN INSTIGATE A CVA PROPOSAL?

- Directors
- An administrator or liquidator if a proposal is a viable alternative or exit from administration or liquidation.

PROCEDURE FOR A CVA

1. Proposal by directors

- Once the directors have created a proposal, they nominate an insolvency practitioner to supervise its implementation
- Usually, within eight weeks of the notice of proposal being put to the nominee insolvency practitioner, a meeting of creditors is held
- At this meeting, creditors may approve, modify or reject the proposal on the support of 75% in value of the creditors present and voting (subject to a second vote of a majority of unconnected creditors). They may also propose an alternative nominee
- The proposal does not affect the rights of secured or preferential creditors
- When the proposal is approved, the nominee becomes the supervisor and takes responsibility for implementing the arrangement in line with the terms of the proposal

2. Proposal by administrator or liquidator

- As nominee, they would proceed directly to convene a creditors' meeting. After this, the same process as the proposal by directors applies.

APPROVAL AND APPOINTMENT OF SUPERVISOR

- The supervisor is responsible for receiving payments proposed within the CVA and distributing them to creditors in line with the terms of the proposal
- The supervisor may also consider requests to vary the terms of the arrangement and present such to the creditors
- In the event of default on the terms of the arrangement, the supervisor may place the company into liquidation
- The day-to-day running of the company remains under the control of the existing directors and management.

Opus Restructuring LLP

London: 2nd Floor, One Euston Square, 40 Melton Street, London NW1 2FD

Milton Keynes: 4th Floor Exchange House, 494 Midsummer Boulevard, Milton Keynes, Buckinghamshire MK9 2EA

Email: info@opusllp.com **Tel:** +44 (0) 20 7268 3333 **Visit:** www.opusllp.com