Company voluntary arrangements

What is a company voluntary arrangement (CVA)?

A CVA is a procedure that allows a company:

- To settle debts by paying only a proportion of the amount that it owes to creditors.
- To come to an arrangement with its creditors over the payment of its debts.

When and how does a CVA come into force?

A CVA comes into force from the date that the company's creditors approve a CVA proposal made for that company. The approval of a CVA by a creditors' meeting requires a majority of over 75% (by value) of the creditors attending the meeting (in person or by proxy) to vote in favour of it.

What is the effect of a CVA on creditors?

Once approved, the CVA binds all the unsecured creditors of a company entitled to notice of the CVA proposal. This means that a CVA binds:

- Creditors that **voted against** the CVA.
- Creditors that attended the creditors' meeting called to consider the CVA proposal, but who **did not vote**.
- Creditors that **did not attend the creditors' meeting** called to consider the CVA proposal.
- Creditors who **did not receive notice of the creditors' meeting** called to consider the CVA proposal, despite being entitled to be notified of the meeting.

Does the company proposing a CVA have the benefit of a statutory moratorium?

Where a CVA proposal is made for a small company, the company can obtain a moratorium, which is similar to that which applies to a company in administration.

How can a creditor challenge a CVA?

A creditor that was entitled to notice of the CVA proposals and feels unfairly prejudiced by the CVA can apply to the court for an order revoking the CVA, or convening more meetings to consider a revised CVA. A CVA can also be challenged on the grounds that there was an irregularity in the conduct of the meetings called to consider the CVA proposal.

What happens if the debtor company does not comply with the terms of the CVA?

The terms of the CVA will deal with this in most cases. Often, the CVA will provide that, on the debtor company's default:

- The supervisor may petition for the company's liquidation.
- The creditors of the debtor company cease to be bound by the CVA, allowing them to pursue the debtor company for the balance of the debt due.
- The supervisor must distribute any assets that he holds in partial satisfaction of the company's debts.

What are the advantages and disadvantages of a CVA?

Advantages

- A CVA is an informal insolvency procedure which does not involve the court. It is therefore cheaper than formal insolvency procedures, which may mean more money for the creditors.

- There is an optional moratorium available for small companies to protect the company from creditors' actions while the proposals for a voluntary arrangement are being put in place.

- In the absence of the optional moratorium for small companies, it is possible to combine a CVA with an administration, which brings with it the benefit of a statutory moratorium. The administrator may be able to put together a suitable set of CVA proposals to persuade the creditors and save the company.

Disadvantages

- The main weakness of the CVA procedure is that there is no automatic statutory moratorium preventing creditors from taking action. The optional moratorium only applies to small companies, and even then it depends upon obtaining the consent of secured creditors for the moratorium to work in practice.

- CVAs are not binding on secured or preferential creditors.

- CVAs have proved difficult to implement. Only a small percentage of corporate insolvencies involve voluntary arrangements because of the difficulties associated with them.