

# a brief guide to company voluntary arrangements

Company Voluntary Arrangements (CVAs) are for insolvent companies that need to compromise (do a deal to settle) their debts. They can be used either to buy time to pay creditors in full or to pay creditors in part in final settlement of their debts. Unlike other insolvency processes the directors remain in charge of the company throughout and the Insolvency Practitioner's role is limited to supervising the deal or proposal with creditors. If successful at the end of the CVA the company is handed back to the directors free from its pre-CVA debts.

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## summary

This is a formal insolvency procedure governed by the Insolvency Act 1986. It is the closest thing we have to Chapter 11 in the USA, leaving the directors in charge of the company whilst an Insolvency Practitioner supervises the proposal (contract) with creditors. If approved by 75% of unsecured creditors by value then all creditors are bound. The proposal can be as flexible as you like – just like any other contract – however creditors usually call the shots and the CVAs either provide for creditors to receive 100 pence in the pound or require monthly voluntary contributions for five years.

## advantages

- ▲ A CVA is the least invasive insolvency process with the control of the company remaining with the directors. It is also probably the least costly or intrusive.
- ▲ The deal with creditors is set out in a proposal document, which is a type of contract and like any contract it can be highly flexible to suit your specific circumstances.
- ▲ If 75% of your creditors by value approve the proposal it is binding on all creditors.
- ▲ At the end of the CVA the directors/shareholders get their company back debt free.

## starting it

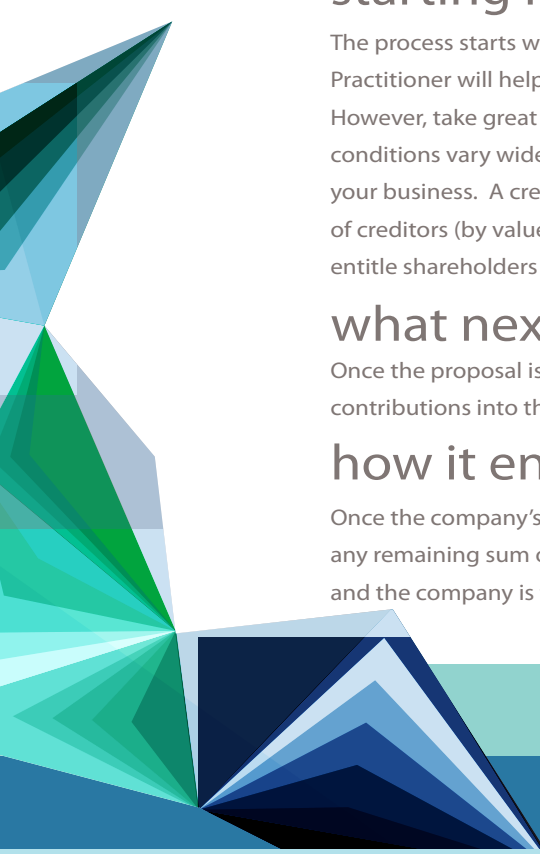
The process starts with the board of directors deciding to make a proposal to creditors. The Insolvency Practitioner will help you draft the proposal, then acting as nominee, has to report on it to creditors. However, take great care what is included in the proposal. Insolvency Practitioner's standard terms and conditions vary widely and it is usually wise to aim for the minimum possible interference with the running of your business. A creditors' meeting is held between 14 and 28 days later and as long as it is approved by 75% of creditors (by value) the proposal is binding on all creditors. There is also a shareholder vote which can entitle shareholders to make an application to Court within 28 days.

## what next?

Once the proposal is approved the company has to fulfil its part of the bargain – usually by making monthly contributions into the CVA for up to five years. The supervisor will admit creditors' claims and pay dividends.

## how it ends

Once the company's part of the bargain is complete the supervisor will issue a certificate of completion and any remaining sum owed to creditors is written off. The supervisor files a final report at Companies House and the company is then free of all pre-CVA debts.



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## here to help

At McTear Williams & Wood our aim is to help you deal with a difficult situation, remove some of the stress and worry and obtain the best possible outcome for you. But early contact is the key. The sooner you get in touch the more we will be able to do to help.

For an informal free of charge telephone call contact

**0800 085 5070**