What happens in a Company Voluntary Arrangement

And how we help you through the process

INSOLVENCY
DEBT RECOVERY
COMMERCIAL FINANCE

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A **Company Voluntary Arrangement** (CVA) is a formal agreement between a company and its non-secured creditors to offer them a better outcome than they would receive if the company were forced into an alternative insolvency process, administration or more typically, liquidation.

It usually involves allowing a company to continue to trade following a period of restructuring in order to realise certain assets and/or pay profits into a CVA fund over time (up to five years). The CVA fund is then used to repay creditors in part or full.

A common element of a CVA is that a company will request extra time to pay off historic debts and may also ask that creditors write off a proportion of the amount due.

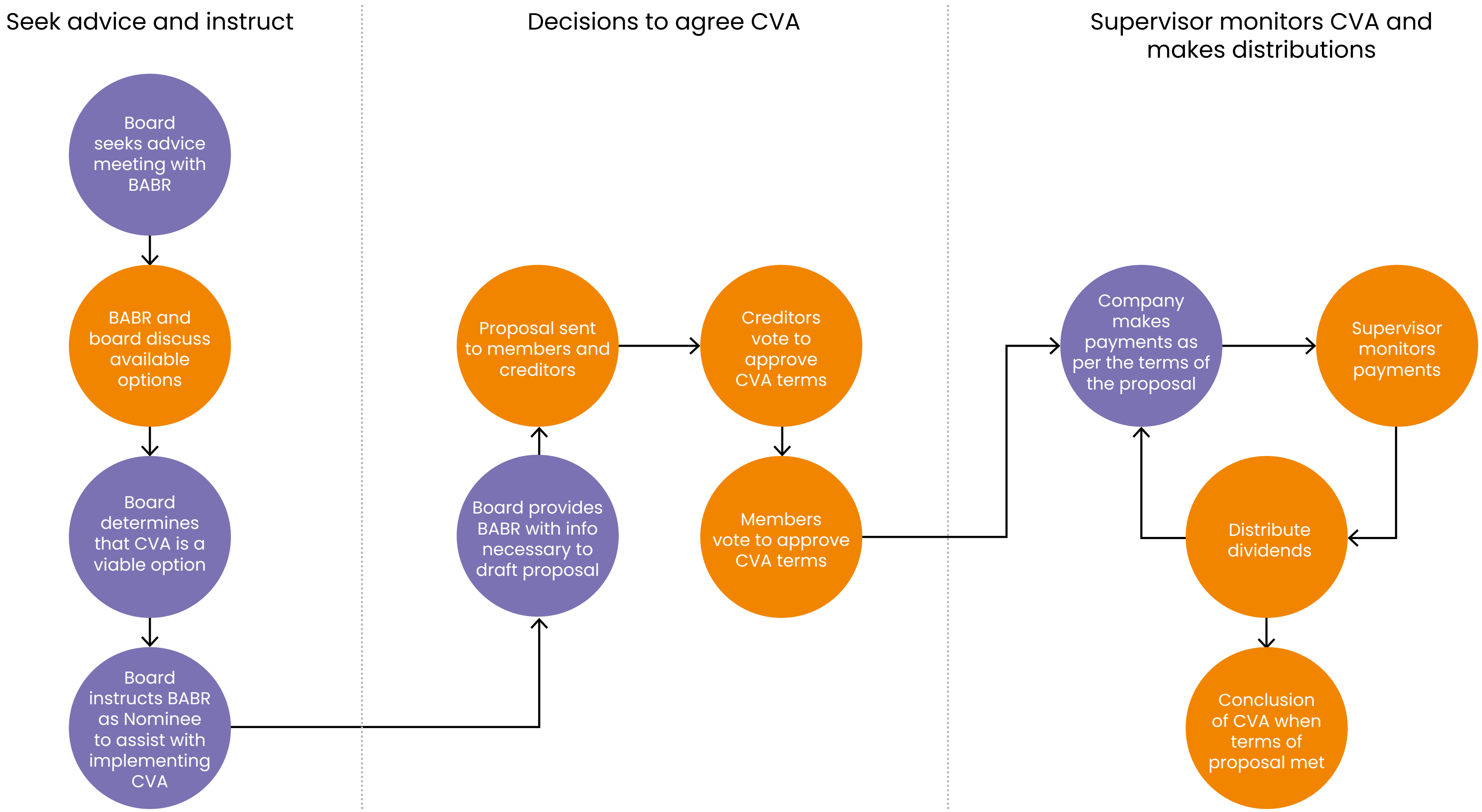
It is a process that is subject to agreement by at least 75% of creditors who vote to consider the CVA, and is supervised by an insolvency practitioner to ensure that any terms stipulated by the CVA are complied with.

The advantages include (but are not limited to) the following:

- A CVA typically avoids any break in trade so maintains goodwill and customer relationships;
- Directors remain in day to day control of operations;
- There is no specific requirement for assets to be bought back by a successor company as is often the case with administration and liquidation sales. This can be particularly helpful where prospective purchasers have limited funding available;
- Personal guarantees offered by directors may be deferred or reduced in certain circumstances;
- There can be tax advantages associated with a CVA in that historic losses will continue to be available to set against future profits and balances due to directors in respect of loans or current accounts will be preserved;
- A CVA carries less stigma than other insolvency processes such as liquidation or administration;
- A CVA is an extremely flexible process that promotes the survival of a company with its business largely intact, albeit often subject to some restructuring. Therefore it maximises the prospect that all stakeholders benefit from ongoing trading assuming a return to profitability is achieved.

If you want to know more, please contact us on 0208 662 6070 or by email at info@babr.co.uk

The key steps involved in placing a company into CVA and the subsequent duties of the liquidator



Responsibilities: Purple = Board of directors/Company | Orange = BABR

The CVA process in more detail

The Proposal

After the directors have sought advice from a licenced insolvency practitioner (IP), and determined that the company is viable, they will formally engage the IP to assist with the preparation of the proposal.

During this time, the IP will act as the Nominee. The proposal will need to include detailed information about the business to enable members and creditors to make a decision about whether to accept the CVA terms including:

- The background of how the company arrived at its current financial position;
- The background and financial history of the directors where relevant;
- An explanation of why the CVA is desirable and the reasons why creditors should concur with it;
- A comparison of the estimated outcomes of the CVA if approved versus not approved;
- An estimated statement of affairs (details of the company's current assets and liabilities);
- Information to support any profit and cash flow projections, if relevant.
- Details of how much the company intends to pay into the CVA and over what period;
- Details of how much the creditors are likely to receive back in relation to their total debt.

The directors will need to review and agree to the draft proposal before it is circulated to creditors and a copy filed at court.

Approving the Proposal

Notice is given to members and creditors to vote on whether to accept the proposal.

At least 75% in value of voting creditors must vote in favour in order for the CVA to be passed and at least 50% of members must also vote in favour.

If the CVA is approved, a Supervisor will be appointed, usually the IP who acted as Nominee and will send notice to all creditors advising the outcome of the vote.

All creditors will be bound by the CVA terms even if they did not participate in the vote.

The CVA

The company must then start to make the agreed contributions to the Supervisor who will monitor the CVA and ensure that the agreed terms are being adhered to.

If the company fails to make the required contributions, this will result in a default and can lead to a failure of the CVA. If this happens the usual outcome is liquidation. It may be possible to adjust the terms of the CVA if the company's circumstances change, although creditors must agree to this first.

If the CVA is successful and the company adheres to the terms over the period required, the Supervisor will file a completion statement and the CVA will end. The directors will continue to run the business.

Contact us

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