Company voluntary arrangements - in a nutshell

- A company voluntary arrangement (“CVA”) is a statutory tool under the Insolvency Act 1986, which can be used by a debtor company to compromise creditors’ claims or to give effect to some other restructuring of the company's affairs.

- A CVA requires the debtor company to make a proposal to its creditors and shareholders, endorsed by a licensed insolvency practitioner.

- If the requisite majorities of creditors and shareholders vote in favour of the proposal, the proposal binds all creditors, irrespective of whether they voted for the proposal, subject to some exceptions and a creditor’s right to challenge the CVA.

- The requisite majority of creditors is at least 75% by value of those voting, but the CVA will not pass if more than half of the total value of unconnected creditors vote against it. The requisite majority of shareholders is more than 50% by value of those voting, although if the shareholders reach a different decision to the creditors, the creditors’ decision will prevail.

- The rights of secured and preferential creditors cannot be compromised without their express consent.

- A creditor can challenge a CVA on grounds of unfair prejudice or material irregularity in the process.

- CVAs have not proven as popular as was hoped when first introduced in the mid-1980s. This is partly because (a) the process cannot be used to “cram down” unwilling secured creditors (whereas this is possible using a Companies Act Scheme of Arrangement), and (b) for larger companies, there is no moratorium against creditor action when a CVA is being proposed (one is available to companies which satisfy the statutory criteria for being a small company).

- The UK Government has been consulting on reforms to insolvency laws, including potential changes to the CVA process. In 2016, the UK’s Insolvency Service published a consultation paper on whether the UK’s rescue regimes require reform, principally by enhancing its debt restructuring tools. The proposals included a restructuring moratorium that would extend to CVAs and a right for creditors to request information to enable them to make better informed decisions. Whether or not reform will be forthcoming remains to be seen.

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