SQUIRE PATTON BOGGS

Company Voluntary Arrangements (CVAs)

UK – 2025

This quick guide sets out an overview of a company voluntary arrangement (CVA), explaining the procedure, what a CVA does and its effect on creditors. It focuses on a CVA proposed by a company's directors.

It is designed to give an overview, and it is not intended to, and does not, constitute legal advice. If you wish to discuss anything in this guide in more detail please contact one of the key contacts at the end of this guide.

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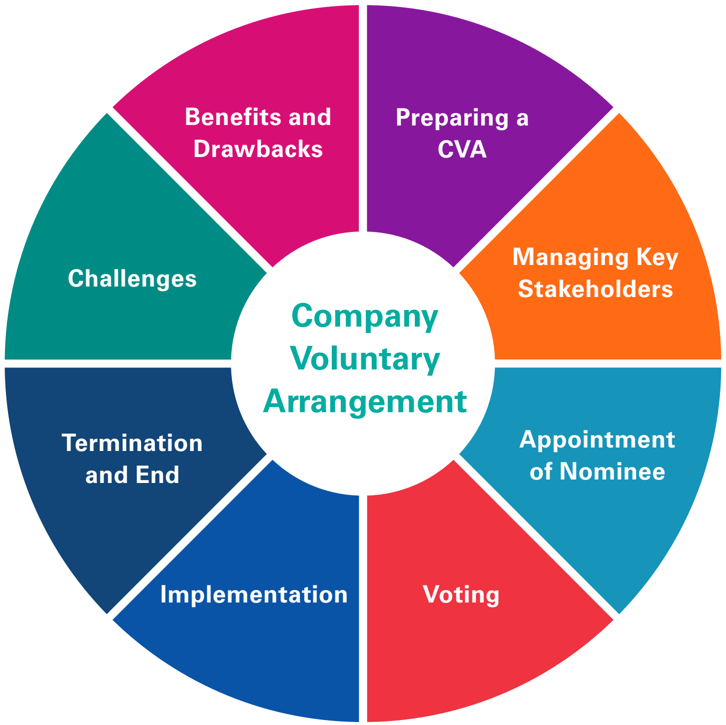

What is a CVA?

A CVA is a tool that is often used as an alternative to administration or liquidation. It allows a company to restructure an insolvent but fundamentally viable business in such a way that the business can continue without entering a more formal insolvency process, such as administration, with the directors remaining in control of the company throughout the process. Alternatively, it can be used as an exit route to restructure a company in administration.

The terms of a CVA can be tailored to address the specific financial issues faced by a company, making it a flexible restructuring tool. It can be used to restructure a particular group of creditors, such as landlords or more broadly to compromise or reschedule unsecured debt.

The CVA is often described as a contract between a company and its creditors. The proposal will set out the terms, and if approved the CVA becomes binding on those creditors who are affected by the CVA.

How is a CVA Used?

A CVA typically involves some form of restructure of a company's liabilities. It can be used to reschedule historic unsecured debt to enable payment over a longer period, write debts off entirely or reduce the level of historic debt.

CVAs are often used by companies in the retail, hospitality and leisure industry where fixed costs such as rent are high/increasing, but market conditions have not kept pace with those costs, making some of a company's stores unprofitable. In such a case a CVA can be used to restructure the company's lease portfolio, which might include closing unprofitable stores, paying landlords a reduced rent (for example on those properties where the property is over rented), but also paying rent in full on stores that are profitable.

Preparing a CVA

Although the legislation envisages that the directors prepare the CVA, which an insolvency practitioner (IP) will then review, in practice an IP will be instructed from the outset and will draft the CVA in conjunction with the company's legal advisors. The directors will be heavily involved in the process and will need to engage with the IP by providing all information and documentation necessary to draft the proposal. In due course the IP will have a formal role as nominee whilst the CVA is being approved and then supervisor if and when it is approved.

A CVA usually takes several weeks to prepare, and in that time, it is also usual for the IP and directors to liaise with the company's key stakeholders (see further below).

A CVA proposal often runs to several hundred pages, reflecting the complexity of a restructure and the need to give creditors sufficient information to decide whether to vote in favour of the CVA or not.

Managing Key Stakeholders

It is important that relationships with key stakeholders are managed carefully from the start of the process through to the final stages

Secured Creditors	Proposing a CVA is likely to be an event of default under the company's security documentation, which would enable a secured creditor to enforce its security. This could potentially disrupt the proposed CVA/cause it to fail. It is therefore important for such creditors to be onboard if a CVA is planned. It is also important to note that secured debt cannot be compromised by a CVA (without the consent of the secured creditor), therefore secured debt will need to be paid in accordance with usual terms unless otherwise agreed.
HM Revenue and Customs (HMRC)	A CVA can compromise tax liabilities, but as HMRC are often one of the company's most significant creditors its vote is likely to be important to obtain approval. As with any significant creditor (or group of creditors) it is important that their position is considered and that there is an appropriate level of engagement with HMRC to ensure they support the proposal. A CVA proposal that proposes to compromise PAYE or VAT liabilities also needs to consider the preferential status of HMRC in relation to those debts.
Landlords	Although rent is an unsecured debt that can be compromised by the terms of a CVA, landlords can be significant creditors if the company has a large lease portfolio and again their votes could be critical to the approval (or rejection) of a CVA proposal. The British Property Federation will often represent landlords when a CVA is proposed and expect to be engaged during the process.
Suppliers	It will be important for directors to identify which suppliers are critical to the business. Although unpaid trade debt is unsecured and can be compromised by a CVA if the business needs certain suppliers to support the business post implementation of a CVA, it will need to consider if, and to what extent, it is appropriate to compromise those debts.
Employees	It is usually the case that the company will wish to retain most if not all of its employees to enable the business to continue to trade. As such, it is unusual for a CVA to compromise employee claims – that would risk employees leaving. It is important to keep employees informed about the proposed restructure, so that they understand what is going on but this needs to be done at the appropriate time.
Pension Schemes	Where the company that is launching the CVA is an employer under a pension scheme, it is possible (depending on the exact structure of the pension scheme) that a Pension Protection Fund (PPF) assessment period will commence. The PPF will exercise the votes of the pension trustees in the CVA process and will generally do so in a proactive way, voting in support or objecting rather than abstaining. The PPF has detailed guidance on its website setting out its approach to CVAs.

Appointment of Nominee

Once the CVA has been prepared an IP (usually the one who has helped draft the proposal) will be appointed by the directors as nominee. The role of the nominee is to confirm to the directors whether the CVA is viable, and to file a report at court confirming whether in their view the CVA has a reasonable prospect of success. In reality the IP will have come to this view much earlier in the process given their involvement from the outset.

Voting on the Proposal

Following the nominee filing their report at court, the company's creditors will then vote on the proposal. A copy of the CVA proposal will be sent to all creditors who the nominee is aware of, together with a statement of affairs and the nominee's comments on the proposals. Creditors will be told what they are being asked to vote on, how to vote and how votes will be calculated, when a decision on the CVA will be made and how to propose modifications.

The insolvency legislation envisages creditors voting using a decision procedure (for example, by correspondence, virtual meeting or electronic decision), but quite often there will be (at the creditors request) a physical meeting at which creditors then vote on the proposal.

Votes are calculated according to the value of the creditor's claim and the nominee, who will chair the meeting, will decide whether to allow or reject a claim. The insolvency legislation sets out a mechanism for valuing debts that might be disputed or contingent.

Secured creditors can vote, but the value of their vote will be determined by the value of their security. If their debt is wholly-secured a secured creditor's claim will be valued at nil for voting purposes.

Modifications

As noted, creditors can propose a modification to the CVA prior to voting. The notice to creditors will explain how creditors can do this, and how the nominee will deal with a proposal to modify. The directors do not have to accept proposed modifications.

If modifications are proposed and accepted creditors will then vote on the CVA with those modifications.

Approval

For the CVA to be approved, it must be supported by 75% of the value of creditor claims who voted and more than 50% of those voting must be independent i.e not a "connected creditor". The definition of "connected creditor" is complex and beyond the scope of this guide, but would include, for example a director of the company or another group company.

The company's shareholders will then vote on whether to approve the proposal, but if creditors have approved it, the CVA will be implemented whether the shareholders approve it or not.

If approved, all creditors (including those that rejected the proposals) will be bound by the terms of the CVA and the nominee will become the CVA supervisor (see below)

Rejection

If the CVA is rejected it is likely that the company will enter into a formal insolvency process, such as administration or liquidation at the instigation of the directors.

Implementing a CVA

The CVA will take effect from the date that the creditors approve it.

Effect on the Company	The company must implement the CVA, ensuring it complies with the terms. If it fails to comply the company is usually given an opportunity to remedy the non-compliance (depending on what the failure is), and if not remedied and/or the CVA requires the supervisor to terminate, the supervisor will be obliged to terminate. The CVA itself will set out what happens where there is non-compliance. While the CVA is in place, the directors will run the business. The supervisor will not be involved in the day-to-day management, but the CVA will usually require the directors to report to them on a regular basis and/or provide financial information so that the supervisor can verify that the company is complying with the CVA terms.
Role of the Supervisor	The role of the supervisor is primarily to ensure that the company complies with the terms of the CVA during the CVA period and terminate the CVA if it does not. They have certain statutory duties, such as to send out progress reports to creditors, but largely the supervisor's role will be governed and set out in the terms of the CVA proposal itself. The supervisor's responsibilities are likely to include agreeing creditor claims and distributing dividends, overseeing the implementation of the CVA, dealing with any proposed modifications to the CVA and terminating the CVA (if the terms of the CVA require them to). When the CVA is complete (or terminated) the supervisor is obliged to file a final report at court.
Creditors	Creditors will be bound by the terms of the CVA such that they cannot bring separate claims against the company to recover debts that are compromised under the terms of the CVA. This is the case even if they chose not to vote in the CVA or voted against it. Any new liabilities the company incurs following implementation of a CVA cannot be compromised by the CVA, and are payable when they are due for payment.
Modifications	The company can vary the terms of the CVA after it has been approved. This might be necessary if the company's financial position changes (positively or negatively). A modification or variation may require creditor consent depending on whether the variation is material in nature. If it is non-material, there is usually scope within the terms of the CVA document for the company to vary the terms without creditor approval. For significant changes to the terms, creditor consent will likely be required.

Duration and End of a CVA

A CVA will typically last for between three and five years and will come to an end either when it is terminated by the supervisor or when the CVA is complete. A CVA is usually completed at the end of its term, but depending on the structure of the CVA is it possible for the CVA to complete early (see here for further discussion).

Challenges to a CVA

A CVA can be challenged if it unfairly prejudices the interests of a creditor, member or contributory or if there was a material irregularity at, or in relation to the meeting/decision procedure.

The challenge must be commenced either within 28 days of the day that the chair reports to the court that the CVA has been approved, or within 28 days of the day a creditor who was not given notice of the proposed CVA decision procedure became aware that the procedure took place.

A CVA challenge can be costly to the creditor(s) involved, but also to the company and its directors who may have to invest important management time to deal with the challenge. For these reasons, ensuring that creditors support the CVA from an early stage and that concerns are addressed helps minimise the risk of challenge.

Overview of the Process

The below sets out a high-level overview of the procedure

CVA prepared

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Nominee reviews the finalised CVA and reports to court

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CVA circulated to creditors to consider

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Creditors vote (by decision procedure or meeting (if requisitioned)) on whether to approve the CVA

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Members vote on whether to approve the CVA

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Nominee reports the outcome of the meetings to court

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If CVA is approved nominee is appointed as supervisor and the CVA is implemented.	If CVA is rejected company likely to enter into an alternative insolvency procedure such as administration/liquidation

What Are the Benefits and Drawbacks of a CVA?

Benefits	Drawbacks
Flexibility A CVA offers flexibility, which other insolvency processes might not. It allows a company in distress, to restructure its business/payment obligations in a way that will hopefully see it return to profitability.	**Secured Debt** Secured debt cannot be compromised (without consent). Another process might be more appropriate if if a secured creditor objects to a CVA.
Control Unlike liquidation or administration where an insolvency practitioner is appointed and management no longer have control of the business; in a CVA the directors retain control of the business and will continue to manage it.	**Length of process** CVAs are often in place for a long time. They are likely to affect the company's credit rating and/or ability to obtain credit insurance, but (as noted above) in some cases it might be possible for a CVA to complete early which might then addresses these issues.
Better Outcome A CVA will allow the business to continue, preserving jobs and relationships with suppliers who are likely to receive a higher return than if the company were to go into administration or liquidation.	**Cram-down** Unlike a restructuring plan where the court has discretion to cram down a plan (in other words force creditors to accept the plan) there is no ability to do that with a CVA.
Costs Unless challenged, a CVA does not generally require any type of court hearing. For this reason, they are generally cheaper to implement than alternatives, such as a restructuring plan or scheme of arrangement. See our Quick Guide to Restructuring Plans.	**Challenge** If a CVA is challenged the costs of dealing with that challenge can be significant and potentially derail a CVA. This is a reason to ensure creditors are on board at the outset.

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