Carter Clark
Financial Recovery

Briefing Sheet

Members' Voluntary Liquidation

What is an MVL?

A Members Voluntary Liquidation (MVL) is a winding-up that can be used where there is sufficient money to pay all creditors in full. It is normally used as a means of bringing a company to a formal end and distributing its surplus assets.

Who can propose an MVL?

An MVL is similar in some ways to a Creditors Voluntary Liquidation (CVL), requiring a shareholders' meeting to appoint a liquidator. The process starts with a board meeting and decision that the company should be wound up, followed by the shareholders' meeting to pass the necessary resolutions. At a point no more than five weeks before the shareholders' meeting, the directors must make a statutory declaration of solvency. In this they confirm that the company can meet its liabilities in full, together with costs and interest, within the next twelve months.

The shareholders pass a special resolution to place the company into liquidation and appoint a liquidator. Twenty one days notice is required for the meeting unless 95% by value of shareholders consent to short notice: there are variations to this percentage in specific circumstances. A majority of 75% is required for the resolution. There is no creditors' meeting.

How is the MVL carried through?

It is essential that the directors make a statutory declaration of solvency confirming that the company can meet its liabilities in full, plus any interest, within twelve months. The liquidator's duties are to realise any remaining assets, agree any outstanding creditors' claims and then distribute the balance to shareholders. In many cases, the only assets and liabilities are inter-company claims.

The liquidator is not required to report on the directors' conduct, nor to scrutinise the events leading up to the company's liquidation. If it is ultimately established that the company is insolvent, the liquidation is converted into a Creditors Voluntary Liquidation (CVL) and the directors, who have sworn a declaration of solvency, may become liable to imprisonment, a fine or both if it transpires that they should have known the company had liabilities exceeding the realisable value of its assets.

Executive summary

Although an MVL requires the company to be solvent on closure, it can be handled through an insolvency procedure, with a liquidator tasked with disposal of assets and payment of creditors prior to distributing any surplus to shareholders. The process enables shareholders to extract their investment in a co-ordinated manner benefiting from applicable potential tax relief.

An MVL can be used to split different businesses within one company, allowing directors individually to concentrate on their areas of strength. New companies created may have appropriate assets transferred to them; in return, shareholders may receive shares in the new companies usually in accordance with their shareholding in the original company.

Have a question?

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Advantages/disadvantages of a MVL

An MVL formally ends the life of the company, leaving no outstanding matters, and provides a potentially tax efficient exit route to shareholders. It is less expensive than a CVL, with less formal procedure and more scope to delegate to directors. The directors do not risk the stigma of being a director of an insolvent company, as with a CVL. The onus on realising all assets and making a distribution to all creditors is placed on the liquidator, rather than the directors. It is also easier for a liquidator to distribute funds and assets to shareholders – for example by making a distribution in specie.

On the downside, there are penalties for overlooking creditors and incorrectly making a statutory declaration of solvency. The liquidation is advertised, which might attract unwelcome attention.

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