



# Intended Use

and why you should care

# What the heck is Intended Use?

## INTENDED USE (USPAP)

- ▶ the use(s) of an appraiser's reported appraisal or appraisal review assignment results, as identified by the appraiser based on communication with the client at the time of the assignment.

## OBJECTIVE\* (ISTAT)

### NOUN

- ▶ a thing aimed at or sought; a goal.
- ▶ "the system has achieved its objective"

### *synonyms:*

- ▶ aim · intention · purpose · target · goal · intent · object · end

\*Lexico, powered by Oxford

## For instance?

- ▶ sale or purchase
- ▶ loan or lease
- ▶ hull insurance
- ▶ residual value insurance
- ▶ financial accounting
- ▶ statutory reports
- ▶ basis for lease rates
- ▶ equity stock offerings, mergers, acquisitions
- ▶ purchase prices allocation
- ▶ bankruptcy, divorce, death
- ▶ non-cash charitable contributions
- ▶ personal property (ad valorem) taxes

# USPAP says:

- ▶ Identification of the intended use helps the appraiser and the client make two important decisions about the assignment:
  - ▶ the appropriate scope of work for the appraisal or appraisal review process development process, and
  - ▶ the level of detail to provide in the appraisal or appraisal review report.

# Case Studies

Or, “I Just Can’t Picture What You’re Talking About”

# Impairments

## ▶ IFRS 36

- ▶ The specific impairments are dependant upon the specific financial/accounting regime the business is working to and there are variations between US GAAP and IFRS, so please ensure you use the correct methodology
  - ▶ Per IFRS36 Impairment may be assessed using two main processes:
    - ▶ Fair Value Less Cost of Sale (FVLCS)
    - ▶ Value in Use (VIU)
  - ▶ The key area of discussion is around the intended plan for the aircraft/engine or fleet within the airline or lessor's business.
    - ▶ If there is a clear intent that the asset has no further use - it is to be stored/sold/parted out then FVLCS is the obvious assessment.
    - ▶ If the asset is considered to be part of the longer term plan then FVLCS may not be such an obvious choice. This decision is complicated because it necessarily has to be assessed for each asset - we are seeing that some aircraft of the same type are having different decisions made about their future. For example, perhaps an airline that has a fleet of 20 A320 only wants 10 in the future. It may dispose of older aircraft or ones with impending high cost checks but it may keep others.
    - ▶ If FVLCS is not valid then how can the VIU assessment be made?

Note: IBA are not accountants or financial advisors and comments regarding financial/accounting matters must be carefully and professionally assessed by your relevant advisors.

# Impairments

## ▶ IFRS 36 (2)

- ▶ Even in a period when the asset is not in use we believe that a case can be made if the longer term is considered. So Value in Use can be interpreted as the potential future value in use rather than exactly what today's use is. An aircraft that has been stored for a few months and may not return to service still has an expectation that it will earn revenue in the future. The FVLCS could be severely impaired but the VIU may not.
- ▶ Is the VIU easily/readily calculated?
  - ▶ The calculations can be complex dependant upon the specific case: That is for a lessor it is relatively easy since the value is a function of the lease rate, lease term and future expectations of the value the aircraft will generate whilst on lease. For a lessor a Lease Encumbered Value is considered appropriate.

“Securitized Value or Lease Encumbered Value is the Appraiser’s opinion of the value of an aircraft, under lease, given a specified lease payment stream (rents and term), and estimated future residual value at lease termination, and an appropriate discount rate.

*NB: The Securitized Value or Lease Encumbered Value may be more or less than the Appraiser’s opinion of Current Market Value. Moreover the Appraiser may not be fully aware of the credit risks associated with the parties involved, nor all related factors such as the time-value of money to those parties, provisions of the lease that may pertain to items such as security deposits, purchase options at various dates, term extensions, sub-lease rights, repossession rights, reserve payments and return conditions.”*

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# Questions and Comments

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