



Letter of Comment No: 219  
File Reference: EITF03-1A

October 29, 2004

Mr. Lawrence Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position EITF Issue 03-1b

Dear Mr. Smith:

Toyota Motor Credit Corporation ("TMCC") provides a variety of finance and insurance products marketed under the brands of Toyota Financial Services and Lexus Financial Services. Toyota Motor Insurance Services, Inc ("TMIS"), a wholly owned subsidiary of TMCC, has over \$890 million in invested assets, of which 74% of the funds are managed externally and over 80% of the externally managed assets are categorized as available-for-sale. We specifically use the investment portfolio to balance our asset/liability obligations as well as meet our liquidity needs.

TMIS appreciates the opportunity to present our concerns on EITF Issue 03-1b related to debt securities impaired solely because of interest rate and/or sector spread increases. Our concerns primarily relate to the interpretations of paragraphs 5, 10 and 16 of the original EITF.

Paragraph 5 of EITF 03-1 determines the securities within the scope. Footnote 3 of paragraph 5 states "Investors should not look through the form of their investment to the nature of the securities held by an investee. For example, an investment in shares of a mutual fund that invests in debt securities would be assessed for impairment as an equity security under this Issue". Because TMIS's invested assets are mostly managed by external sources, we are unclear on how to categorize these securities and how to determine impairment.

- We request further clarification regarding footnote 3 as noted above. Specifically, if we have funds managed in a separate account by an external manager, do we "look through" and treat each investment in the account as an individual security or do we treat the entire investment balance as one security.

Paragraph 10 of EITF 03-1 states that prepayable or callable debt and equity securities that are impaired are to be deemed other-than-temporary unless ability and intent to hold until recovery can be determined.

- We are unclear on the categorization of securities that fall within paragraph 10 or 16. Specifically, we request clarification as to the meaning of "not substantially recover all of its cost" and its application to debt securities.

- We are uncertain as to how we would apply such criteria to our external investment managers and are opposed to having our funds managed based on the requirements of EITF 03-1. Additionally, we are not certain as to whether our external fund managers have the capability to operationally monitor securities on a lot level as mentioned under paragraph 21 footnote 12.

Paragraph 16 states that impaired debt and equity securities that cannot be prepaid or settled before recovery should be deemed other-than-temporary unless ability and intent to hold until recovery can be determined.

- Forecasting recovery of fair value up to or beyond cost is impractical and difficult to support. Requirements would include a lot level analysis, forecasts of economic conditions, movements in interest rates and spreads, consistent and accurate ability to project and interpretation of a reasonable recovery period.
- The criteria for “tainting” through a pattern of selling investments prior to the forecasted recovery of fair value are unclear. We are unsure under what circumstances sales will be permitted without calling into a “tainting” pattern. Additionally, we are unclear on the frequency of sales that will be categorized as “tainting”.

Our concerns extend to the accounting of the other-than-temporary-impairment (“OTTI”) securities. It would seem unusually punitive to require companies who elect to outsource its investing activities to basically apply a lower of cost or market model. As stated in Appendix A of FAS 115 “the current requirement to use the lower-of-cost-or-market (LOCOM) method for debt securities held for sale and for noncurrent marketable securities is not evenhanded because it recognizes the net diminution in value but not the net appreciation in the value of those securities”.

We appreciate your consideration in the delay of EITF 03-1b and request that FASB consider allowing management to appropriately set internal policies in the determination of OTTI policy as it pertains to each company and portfolio mix. We would also like to request that adequate transition time be allowed once a final deliberation has been issued.

Respectfully,

John Stillo  
Vice President and Chief Financial Officer