TOYOTA MOTOR CREDIT CORPORATION

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December 15, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Sir or Madam:

Toyota Motor Credit Corporation ("TMCC" or the "Company") appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update of Topic 840, Leases (the "Exposure Draft"), recently issued by the Financial Accounting Standards Board (the "FASB"). Furthermore, we appreciated the opportunity to express our views on the "Exposure Draft" at the Lessor Workshop conducted by the FASB and the International Accounting Standards Board ("IASB" and collectively, "the Boards") on November 29, 2010.

TMCC provides automotive financial services, offering an extensive line of financing plans and vehicle and payment protection products to Toyota customers and dealers in the United States and Puerto Rico. The Company also provides wholesale financing, term loans, revolving lines of credit and real estate financing to vehicle and industrial equipment dealers in the United States and Puerto Rico. The Company has two primary lease portfolios; (1) a retail lease portfolio that represents a large homogeneous pool of consumer vehicle leases and (2) a commercial lease portfolio representing a smaller pool of commercial equipment leases with varying terms and conditions. Our retail lease portfolio is 97 percent of our total lease portfolio.

While TMCC agrees with the objective that the Exposure Draft should "establish principles so that lessees and lessors report relevant and representationally faithful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases"; we do not believe the recognition and measurement provisions of the Exposure Draft results in this objective being achieved for lessors.

The Exposure Draft, as it applies to lessors, is onerous and we will incur substantial costs while our investors experience trivial improvements over the current guidance. Accordingly, we believe that the new guidance will not meet a significant need and that the intended benefits will not be worth the additional efforts and costs. We maintain that the existing GAAP guidance as it applies to lessors is sufficient to achieve the objective "to report relevant and representationally faithful information to users of the financial statements about the amounts, timing and uncertainty of the cash flows arising from leases."

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Our answers to questions in the exposure draft that are specific to TMCC are attached in the appendix to this letter.

We thank the Board for its careful consideration of our points within this Comment Letter. We strongly support the principle that lease accounting should provide users of financial statements with a complete and understandable picture of an entity's leasing activities, and we support the objective to establish principles so that lessees and lessors report relevant and representationally faithful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases but we do not believe the Exposure Draft is consistent with this principle or achieves this objective for lessors

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Ron Chu

Vice President, Accounting & Tax

Responses to questions in the exposure draft specific to TMCC

Question 2: Lessors

- (a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
- (b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

We respectfully disagree with the Boards proposal for lessor accounting. While we understand the Boards' aim is to provide consistency between lessee and lessor accounting models, we do not agree that a lessor should apply either the performance obligation approach or the derecognition approach in accounting for leases as this hybrid approach does not achieve the Boards' objective nor is an improvement over the current accounting for lessors. Rather we believe it is more appropriate to retain the current US GAAP model for lessors, removing the 'bright-line' classification guidance and supplementing with additional disclosures if the Boards believe lessor investors require additional information.

The problems associated with the existing lease literature relate to the accounting for leases by lessees and we are unaware of significant criticism directed at the lessor accounting model. In our opinion the proposed requirements will require considerable effort to implement resulting in significant costs while not providing investors with more useful information that could not otherwise be provided more cost effectively through additional disclosures. In addition, the application of the proposed guidance will not significantly change our overall financial results relating to our leases as we expect only a slight gross-up in the statement of financial position and an initial acceleration of revenue upon transition that would thereafter revert to be in line with our current revenue recognition patterns as old leases expire and new leases are entered into.

The performance obligation approach is flawed in that it fails to recognize that the lessor has transferred the value of the right of use to the lessee. In our opinion the performance obligation approach, which is required if the lessor retains exposure to significant risks or benefits associated with the underlying asset, is inconsistent in that it forces the lessor to carry both the asset and a lease payment receivable as well as a performance obligation liability on its balance sheet. There appears to be double counting since the lessor recognizes both the leased asset and the present value of the future cash flows generated by the leased asset without a corresponding derecognition of the asset. We are unsure whether the net presentation within the statement of financial position will fully mitigate this concern.

However should the Boards wish to change the current US GAAP model for lessors, we believe that a single approach to lessor accounting would be preferable and we would favor the performance obligation approach as the single model, with some changes as described further within this appendix. Application of the performance obligation approach will be similar to accounting for leases as operating leases under current accounting standards and thus would be our preferred approach.

Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree that a lease contract should be considered terminated only when a purchase option is exercised by the lessee. From the lessor's perspective, the accounting for the lease should conform to the contractually enforceable rights granted under the lease contract. The lessor has no ability to force the lessee to exercise a purchase option, therefore this provision should not be included when determining lessor accounting. Even if a lessee has a history of exercising purchase options, the lessor accounting should be consistent with its contractually enforceable rights.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We respectfully disagree that a lessor should determine the lease term as the longest possible term that is "more likely than not" to occur taking into account the effect of any options to extend or terminate the lease. Rather, we believe that the "more likely than not" threshold (which we interpret to mean greater than 50%) in determining the likelihood of various term extension provisions or options to terminate leases is too low, and that a "probable" threshold, as defined in ASC 450 is more reasonable. Since lease termination transaction costs for our leases are low and therefore do not present a barrier to early lease termination, we are unable to reliably predict the likelihood of the occurrence of an early termination with a "more likely than not" threshold. We believe considering the lease term that is "probable" of occurring provides a more reliable measurement of the receivable and is more consistent with the Boards' proposal on revenue recognition.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

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We do not agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of the right to receive lease payments if they can be reliably measured. Rather we believe contingent rentals and expected payments under term option penalties and residual value guarantees should be accounted for by lessors when payment is received. Generally, contingent rentals and residual value guarantees are typically only reliably measurable at the end of the lease term and therefore under the proposed guidance they are unlikely to be accounted for until the payment is received. We are concerned with a change to this process which would require us to be able to accurately determine the probability of individual outcomes when measuring lease payments under the proposed model. This revised process would require us to perform the expected outcome calculation for numerous leases which would be not only time consuming but costly. This process will be made even more complex by the requirement to reassess these probability-weighted estimates as facts or circumstances change. We believe eliminating the requirement for a lessor to recognize these contingent rentals and residual value guarantees that are reliably measurable, should not result in a practical difference in the determination of lease payments but will eliminate the possibility for diversity in practice in the recognition of contingent gains, and the recognition of a receivable that the lessor may not have the right to collect.

Additionally we strongly support the alternative view of Stephen Cooper in the IASB Exposure Draft that reflecting all expected contingent rentals in the measure of the lessor's liability does not provide relevant information about the economics of such leasing arrangements. There are concerns over "the reliability of measures that include estimates of contingent rentals based upon management forecasts of business performance over many years". Furthermore, we also believe there are concerns over the reliability of measures that include estimates based upon the use of the asset and the future value of an asset.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree that lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments since the previous reporting period. These changes (whether contractual or macroeconomic in nature) in lease facts and circumstances have the potential to affect the value and carrying amount of these assets and liabilities and if they are not reassessed periodically when there are significant changes, the information presented to financial statement users may be untimely and unfaithful to the underlying economics of such assets and liabilities.

We contend that leases essentially represent financing of assets and therefore are similar to loans. As such, similar to the assessment of the allowance for credit losses on loans described in FASB ASC 310, we believe lessors with largely homogenous pools of leases with similar risk characteristics should be permitted to remeasure assets and liabilities arising under such leases on a portfolio basis (i.e. evaluate the

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effect of changes in facts or circumstances across an entire pool of leases rather than on a lease by lease basis) if such changes relate to changes in contractual or environmental factors that are not unique to individual leases. Without a portfolio approach to reassessment, the cost of reassessing contingent rentals and options to extend or terminate a lease on a lease-by-lease basis at each reporting date will be unduly burdensome, especially for entities that have a large volume of leases. We believe using this portfolio approach to the remeasurement of assets and liabilities arising under homogeneous leases will allow for a more accurate measurement of the leased assets and liabilities in their entirety and will also allow for reassessment to occur in a more timely and cost effective manner.

Question 12: Statement of financial position

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

We do not agree that, if applying the performance obligation approach, a lessor should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability. A lease is a single contract and is interdependent on the underlying asset; presenting a net lease asset or liability as a single line item on the statement of financial position more clearly presents the economic reality of the arrangement. Further break out of each component in the statement financial position does not provide additional transparency or more decision useful information to the investors and may in fact lead to confusion amongst investors. As previously stated herein, the performance obligation approach is inconsistent since it forces the lessor to carry the asset and a lease payment receivable as well as a performance obligation liability on its balance sheet. We believe that unless there is a net presentation within the statement of financial position, there will be double counting since the lessor recognizes both the leased asset and the present value of the future cash flows generated by the leased asset without a corresponding derecognition of the asset. We therefore propose that net lease assets and/or liabilities should be presented as a single line item on the statement of financial position, with further break out of the components in a footnote disclosure.

If the Boards do move forward with a gross presentation of underlying assets, rights to receive lease payments and lease liabilities in the statement of financial position, it would be helpful for the Boards to provide additional examples of the proposed gross method of presentation including whether aggregation of net leased assets and net leased liabilities is permitted, so companies can better assess the necessary transitions to the proposed disclosure requirements.

Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

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We agree that lessors should present lease income and lease expense separately from other income and expense in the income statement. A lease is one economic contract and is interdependent on the leased property; therefore, presenting lease revenue (which would comprise interest income and amortization of the lease liability) more clearly identifies the income associated with the entire arrangement. We believe lease expense (which would represent depreciation) should be shown separately. This presentation is similar to our current income statement present. Further disaggregation of each component of lease revenue and expense on the income statement does not provide additional transparency or provide more useful information to the investors. In some cases, the increased level of disaggregation may lead to confusion. We therefore propose that lease income and lease expense should be presented respective as single line items on the income statement, with further break out of the components in a footnote disclosure.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree that, under the indirect method, the change in the right to receive lease payments should be presented separately as from other financing receivables within operating activities in the statement of cash flows if the amounts are material. The depreciation of the underlying asset along with the amortization of the performance obligation liability should continue to be shown separately as these items are non-cash. However, as a finance company, we are in the business of acquiring leases and do not originate the underlying lease contract. As such, we currently present the acquisition of the lease contract as an investing outflow and the exercise of a purchase option or the disposal of the leased vehicle as an investing inflow.

The Exposure Draft does not specify the cash flow presentation for exercise of a purchase option at the end of the lease term. We would recommend cash received under a purchase option or from the disposal of the leased vehicle follow the same presentation as the origination or acquisition of the lease contract. In our case, the cash received from the exercise of the purchase option should be within investing activities.

Examples of cash flow presentation for both the direct and indirect method would also be helpful.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?
 - (paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

The disclosures required by the Exposure Draft for lessors should be limited to the contractually enforceable rights granted under the lease contract. Disclosures regarding how leases may affect the amount, timing and uncertainty of the entity's future cash flows would require the lessor to consider the actions of the lessee for which the lessor has no contractual rights to compel or enforce. Likewise, decisions made by the lessee may not be in the lessors' best interest or may run counter to what would normally be expected. These types of disclosures are better suited for Management's Discussion and Analysis or the Risk Factors of the registrant's public filing.

Question 16: Transition

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

The transition guidance in the Exposure Draft states that the date of initial application is the beginning of the first comparative period presented in the first financial statements in which the entity applies this guidance. Our consolidated income statement that is included within our Financial Statements provides three years of financial information, whereas our Selected Financial Information provides five years of income statement and balance sheet data.

We would like further clarification from the Board as to whether the simplified retrospective approach would require us to recognize and measure all outstanding contracts from the beginning of the third year presented in our consolidated statement of income or the fifth year as presented in our selected financial data. Should the Board decide that a five year retrospective application is appropriate, the cost-benefit of performing a full retrospective transition will be no different from the simplified five year retrospective approach and as such, we would prefer a full retrospective transition. However if the Board requires that all outstanding contracts be recognized and measured from the beginning of third year presented, we agree with the simplified retrospective approach on transition.

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We do not agree with the Boards' assessment that the benefits of the proposals would outweigh the costs. We contend that the new guidance will not meet a significant need within the investor community and that the overall benefits of the resulting information do not justify the costs of obtaining it.

Specifically we believe that the proposed requirements will require a significant amount of effort to implement resulting in significant costs incurred for changes in our lease accounting and management reporting systems as well as changes to processes and controls; yet the information produced will not

provide our investors with more useful information that could not be more cost effectively addressed through additional disclosures. Furthermore, we agree with the statement in paragraph BC 203(c) that a new lease model would not change the way our business operates or add benefit to the business. We further note that the proposed requirements are not expected to significantly change our overall financial results relating to our leases. The proposed requirements would however result in significant costs because it would require changes to our lease accounting systems. In addition, achieving symmetry with the proposed approach to lease accounting by lessees is not a compelling reason to require a change to the current US GAAP model for lessors; the proposed lessor model in many cases is not symmetrical with lessee accounting as the proposed approach creates four models for lessors – partial derecognition, performance obligation, short-term lease and investment property methods. Therefore we deem the significant increase in costs that we would incur to implement the proposed requirements is not offset by an increased benefit for our investors as the information that the investors would receive under the proposed requirements is not significantly different from the information our investors receive under the current lease accounting model.

Question 18

Do you have any other comments on the proposals?

We consider the current GAAP guidance as it applies to lessors is sufficient to achieve the objective "to report relevant and representationally faithful information to users of the financial statements about the amounts, timing and uncertainty of the cash flows arising from leases." Additionally, we believe that the new guidance will not meet a significant investor need and that the overall benefits of the resulting information do not justify the costs of obtaining it.

However, should the Boards wish to change the current US GAAP model for lessors, we would favor the performance obligation approach as a single model for lessors (refer to Question 2). However we believe that the cost of reassessing contingent rentals and options to extend or terminate a lease on a lease-by-lease basis at each reporting date is unduly burdensome, especially for entities that have a large volume of leases, and such reassessment should be permitted to occur on a portfolio basis.

Further, we do not agree with the Boards' assessment that the benefits of the proposals would outweigh the costs; there would need to be significant additional benefit to lessors and to investors in order for the complexity of the accounting and the significant costs of implementation and transition to merit this change.