April 10, 2006

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116


Dear Ms. Bielstein:

Toyota Motor Credit Corporation ("TMCC" or the "Company") appreciates the opportunity to comment on the Exposure Draft, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115* ("Exposure Draft").

Overall, TMCC supports the Board's efforts in developing an accounting standard that would reduce both complexity in accounting and volatility in earnings caused by differences in the existing accounting rules.

We believe the fair value option will lessen the earnings impact arising from the mixed attribute accounting model and the inflexible hedge accounting rules of FASB Statement No. 133, as amended. Under the mixed measurement model some financial assets are fair valued through earnings, others through equity, while other financial assets and almost all financial liabilities are carried at amortized cost. We believe that the fair value option is necessary to reduce the volatility resulting from this asymmetric accounting and should better align the accounting treatment of financial transactions with the underlying business and risk management practices.

However, we do have concerns regarding Changes in Creditworthiness, *Issue 6* of the proposal that we believe should be addressed prior to finalization of the Exposure Draft. We understand that the Board discussed possible approaches for curtailing the debtor's recognition of the portion of a liability for changes in fair value that is attributable to changes in its own creditworthiness and determined not to provide any curtailment.

We disagree with the Board’s decision. To put our specific comments regarding *Issue 6* into context, we describe below the nature of how we manage the risks inherent in our Company. We believe this background is necessary and informative in understanding the comments that follow.
TMCC's policy is to hedge its financial liabilities, specifically debt, for interest rate and foreign exchange risks. TMCC manages interest rate risk primarily with interest rate swaps and purchased interest rate caps. The foreign currency exposure is managed using cross currency interest rate swaps, currency basis swaps or a combination of interest rate swaps coupled with basis swaps.

Although applying the fair value option presents an alternative to hedge accounting in many instances, the two are not perfectly interchangeable in every circumstance. For example, in cases where TMCC seeks to manage only selected risks of its financial liability, the Company will be exposed to volatility in the application of the fair value option which is based on the fair value of the entire financial liability.

TMCC does not hedge the credit risk associated with its financial liabilities; therefore, the Company would be exposed to undue volatility if we elected the fair value option. The obvious answer to reducing this volatility would be the use of credit derivatives to manage our credit risk. Although credit derivatives can be a useful tool in managing credit risk, the use of credit derivatives would not only result in a change of TMCC's risk management strategy in an attempt to reduce earnings volatility arising from the application of the fair value option but would also result in increased costs related to the purchase of additional derivative instruments to mitigate this volatility.

Additionally, credit derivatives themselves are subject to concerns; these instruments are relatively new, continue to evolve and can be illiquid. The more structured the products, the less liquid their markets will be in times of stress. A sudden widening of credit spreads could result in unanticipated losses in some of the newer, more complex structured credit products. Pricing may be volatile, and history may be a poor guide to future performance, even in normal times. Moreover, correlations and covariances in normal, liquid markets may be quite different from those in periods of market stress. Furthermore, prices are not fully transparent since credit derivatives are traded in over-the-counter markets where a few major financial institutions act as dealers who are under no obligation to act as market makers and have the ability to manipulate credit spreads.

We propose two alternative approaches that we ask the Board consider in their guidance on the fair value option for Changes in Creditworthiness, Issue 6 as follows:

Alternative 1. Allow the fair value option to be bifurcated into component risks with the ability to mark to market the financial asset or liability for either the overall fair value of the entire item, for interest rate risk, for foreign exchange risk, for credit risk or for a combination of two or more risks if the risk identified as being marked to market is not the overall fair value of the entire item. This approach is broadly consistent with the approach used in identifying the hedged risks under FASB Statement No. 133, as amended, which allows the valuation of the hedged item to reflect the targeted hedging strategy (for example, solely reflecting changes in interest rate or foreign currency risk) instead of requiring such items to be fully fair valued.

Alternative 2. Exclude the mark to market of an entity's own credit risk from the fair value option by limiting the mark to market of its liabilities solely to valuation changes due to general market movements (including the interest rate yield curve, foreign exchange rates, and equity indices). We believe that the fair value option, as currently specified, might lead to shortcomings in financial reporting; specifically, the potential to allow companies to
benefit from a deterioration in their own credit risk. We recognize that the Exposure Draft will require disclosure that is intended to allow the user of financial statements to determine the impact of the entity’s creditworthiness with respect to the application of the fair value option to a Company’s liabilities. However, notwithstanding this disclosure, which is likely to be in the footnotes to the Company’s financial statements, the reported measures of profit and loss and equity would be distorted.

In summary, we support the Board in developing an accounting standard that simplifies accounting and encourages the display of more relevant and understandable information to users of the financial statements. Therefore, we urge the Board to consider our detailed comments herein, specifically the potential to allow companies to benefit from a deterioration in their own credit risk. We believe doing so will enhance the relevance and transparency of the financial statements.

Thank you for the opportunity to express our views. We would be pleased to discuss these views on the proposed guidance. Please contact me at (310) 468-7269 if you have any questions.

Sincerely,

Thomas A. Kiel
Chief Accounting Officer