2011-150
Comment Letter No. 137

TOYOTA MOTOR CREDIT CORPORATION

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

Re: Supplementary Document – Financial Instruments: Impairment (File Reference No. 2011-150)

Dear Sir or Madam:

Toyota Motor Credit Corporation ("TMCC" or the "Company") appreciates the opportunity to comment on the Supplementary Document on Impairment of Financial Instruments (the "Supplementary Document"), recently issued by the Financial Accounting Standards Board (the "FASB"). We understand that this Supplementary Document applies to open portfolios of loans and debt instruments that are not measured at fair value (or financial assets measured at amortized cost as outlined in the corresponding Supplement to Exposure Draft issued by the International Accounting Standards Board (the "IASB")) but have chosen to focus our comments related to the impact on our loan portfolios.

While we agree in concept with the objective to address the issue of delayed recognition of losses associated with loans and debt instruments, we are concerned that the promulgation of accounting and reporting standards is being used to address an issue that was not created by inadequate accounting and reporting standards, but rather by weaknesses in corporate governance and risky business endeavors. We agree with the Report of the Financial Crisis Advisory Group that "The mission of accounting standard setters is to promote the reporting of unbiased, transparent and relevant information about the economic performance and condition of businesses…" Therefore, the reporting of financial information should not be confused with the use of financial information by market participants in their decision-making process. Issuing this Supplementary Document will not ultimately curb intentional risky behavior of companies through more restrictive accounting standards. The true answer lies in providing transparent information through financial reporting, which may be supplemented with additional disclosures to aid in the decision-making process of market participants.

The current incurred loss model does have its limitations, particularly with inflection points caused by rapid changes in economic events and future uncertainty. The migration from the incurred loss model to the expected loss model should be balanced and not create undue complexity. Furthermore, flexibility in financial reporting should be balanced with comparability among entities. Accounting and reporting standards provide limited information if there is a lack of comparability among peer groups. We are

concerned that the impairment methodology outlined in the Supplementary Document would reduce comparability of financial statements among companies and add complexity to our business.

We would request the FASB consider the impact of migrating from the incurred loss model to the expected loss model in the context of the recently implemented disclosures outlined in ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. Specifically, we would like guidance on issues such as whether migration to the expected loss model would require a redetermination of a portfolio segment and whether additional disclosures would be required (e.g., expected weighted average life of the portfolio, foreseeable future period, age of the portfolio, etc.).

We are also concerned with the differing views of the FASB and IASB on topics such as the calculation of the time-proportional losses, as well as the fact that the FASB is silent on many provisions contained within the Supplementary Document. Lack of consensus makes it difficult for constituents to provide effective and constructive responses. Therefore, we suggest that another exposure document be released for comment once consensus is reached between the FASB and IASB and prior to finalization of guidance related to this topic of impairment.

We would also request the FASB consider the impact migration from the incurred loss model to the expected loss model would have on capital requirements (i.e., stockholders' equity). If the proposed guidance is adopted, the allowance for credit losses recorded for all companies will dramatically increase over current levels, causing a proportional decrease in stockholders' equity. Changes in key metrics derived from stockholders' equity, both from a performance measurement and a regulatory compliance perspective, will need to be revised to accommodate the impact of this proposed guidance.

Our answers to selected questions in the Supplementary Document are attached in the appendix to this letter. Since the Supplementary Document is limited to the timing of recognition of expected losses for open portfolios, our views may differ from the answers contained within this comment letter once final deliberation of the impairment project by both the FASB and IASB is complete.

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

Sincerely,

Ron Chu

Vice President, Accounting and Tax

Appendix – Responses to Selected Questions

Question 1: Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Subject to the comments in subsequent questions, we believe the proposed approach addresses the weakness of delayed recognition of expected credit losses. Once implemented, the proposed approach should not result in a dramatic change to our allowance for credit losses period over period due to the short duration of our automobile loan portfolio. However, migration from the incurred loss model to the expected loss model will be particularly difficult upon adoption. We would recommend allowing flexibility in transitioning to the expected loss model. One possibility would be to allow companies the ability to recognize the sudden increase in the allowance for credit losses gradually (i.e., evenly each quarter) over a period no longer than half of the portfolio's expected life. Furthermore, allowing companies the option to record the transition adjustment, either directly through the income statement or indirectly through other comprehensive income, would also lessen the impact of adoption.

Question 2: Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary documentation seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

Yes, subject to our comments contained in this letter, we believe that the impairment model proposed for an open portfolio would also be suitable for a closed portfolio. The distinction between good book and bad book should also apply to a closed portfolio. Given the nature of a closed portfolio (assets are not added to the portfolio throughout its life), it may be operationally easier to measure impairment using the time-proportional method on the good book for a closed portfolio rather than for an open portfolio.

Question 3: Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

No, we do not agree with the proposal to require that credit losses be recognized based on the greater of the time-proportional expected credit losses or the credit losses expected to occur within the foreseeable future (being a minimum of 12 months) for the good book (the "greater of" approach). We believe the time-proportional method will fulfill the boards' objective for establishing a sufficient allowance for credit losses and the use of the "greater of" approach with the foreseeable future method adds an unnecessary level of complexity.

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Furthermore, the “greater of” approach would also lead to a lack of comparability between periods and between companies. For example, in one period a company may calculate the allowance for credit losses using the foreseeable future method with subsequent periods based on the time-proportional method. This change in methods may obscure a trend that is meaningful to a market participant. In other situations, a company may determine the “foreseeable future” to be a different timeframe from its peer groups.

To address both the complexity and comparability issues, we would prefer that the requirement to calculate the amount of credit losses expected to occur within the foreseeable future be eliminated from the proposed standard.

Question 4: Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Yes, the proposed approach to determine the impairment allowance on a time-proportional basis would be operational. However, the determination of the remaining expected weighted average life of the portfolio may be operationally difficult for some preparers. As such, further guidance on how the average life of the portfolio should be determined would be helpful. Segmentation (by origination date and/or duration) of an open portfolio may relieve some of the operational complexities of determining the weighted average life of the entire portfolio. Additional guidance on segmentation within the portfolio and how this segmentation would impact the disclosure of portfolio segments as defined by ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, would also be helpful.

Question 5: Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

We do not believe that the proposed approach to determining the impairment allowance for the good book provides information that is useful for decision makers as the data may not be comparable from period to period due to the recognition of credit losses based on the greater of either the time-proportional expected credit losses or the credit losses expected to occur within the foreseeable future. This “greater of” approach could create variability when comparing current credit losses between periods and among companies. Further, the lack of a clear definition of the foreseeable future period means that, in all likelihood, there will be significant variation among companies in its application. As a result, the usefulness of the information for decision-making will be negatively impacted. While enhanced disclosure requirements may help to mitigate the effects of the disparity, we believe additional guidance around the term foreseeable future will be required before the proposed approach can be practically applied.

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We do believe that the proposed approach to determining the impairment allowance on the bad book would provide information that is useful for decision-making as it closely resembles the current accounting for impaired loans under ASC 310-10, *Receivables* [FAS 114].

Question 6: Is the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

See response to Question 7 below.

Question 7: Is the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

We believe the proposed guidance clearly describes the requirement to differentiate between the good book and the bad book for the purposes of determining the allowance for credit losses.

Based on our preliminary assessment, we believe that the proposed requirement to differentiate between the good book and the bad book in an open portfolio is feasible. However, the Supplementary Document issued by the FASB only addresses when to transfer an asset from the good book to the bad book but does not explain how that transfer should occur. Furthermore, the Supplementary Document does not address transfer of assets from the bad book to the good book (Appendix Z to the Supplement to Exposure Draft issued by the IASB does address transfers). Additional guidance on how the actual transfers between the good book and the bad book would occur would be helpful, particularly with the mechanics on transfers from the bad book back to the good book.

Question 8: Do you agree with the proposal requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

We agree with the proposal to differentiate an open portfolio between a good book and a bad book. As discussed in Question 7 above, further clarification on transfers between books would be helpful.

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Question 9: The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

As discussed in Question 3 above, we do not agree with the proposal to require the use of the foreseeable future method; therefore, we do not agree with the proposal to require a floor. If the goal of the proposed standard is to address the issue of delayed recognition of losses projected to occur in the future, then preparers should be allowed to recognize the likelihood for short-term losses to recover. This likelihood to recover is partially determined based on the underwriting standards of the entity and the risk management practices employed. If an entity has good quality underwriting standards and a strong risk management process, then it should be allowed to factor in improvements in the credit quality from future periods. Likewise, if future improvements do not materialize as expected, then additional losses would begin to manifest in the open portfolio. As preparers are required to update their assessment quarterly, then this trend would emerge with sufficient time to adjust accordingly (typically preparers review this more frequently and would see these trends emerge earlier).

We believe that the time-proportional method adequately allows companies to consider changes in the credit quality of the portfolio without the need for the floor. As such, we would prefer that the requirement to calculate a floor be eliminated from the proposed standard.

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

See response to Question 9(a) above.

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

As discussed in Questions 3 and 9(a) above, we do not agree with the foreseeable future method. However, if determining credit losses expected to occur within the foreseeable future is required, then yes, we would expect the foreseeable future period to change based on changes in economic conditions. We agree with the FASB's position in Paragraph B14 that the foreseeable future period would be fairly constant. However, sudden and/or extreme changes in economic conditions may necessitate an adjustment to the foreseeable future period as the ability to accurately develop specific projections of events and conditions in times of rapid change may be diminished.

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Question 11: The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

If the goal of the proposed standard is to address the issue of delayed recognition of losses that are expected to occur in the future (beyond 12 months), then financial statement preparers should be allowed to discount expected loss estimates, particularly when the remaining expected weighted average life of the portfolio is long-term. However, when the remaining expected weighted average life of the portfolio is short or medium term, then discounting may not necessarily yield a substantially different result. Alternatively, using undiscounted estimates would make the expected loss amounts even larger which is consistent with the goal of the proposed standard. We believe allowing preparers the flexibility to choose between using discounted or undiscounted estimates provides for easier implementation and greater operational feasibility, outweighing the risk of reduced comparability among companies. Furthermore, we believe that additional disclosure should be required as to the method (either discounted or undiscounted) used to derive the allowance for credit losses. This disclosure should also be made at the portfolio segment level as defined by ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

If preparers are allowed to choose between using a discounted or undiscounted estimate, then the determination of the discount rate becomes less of an issue. We would recommend that the selection of a discount rate be based on either the risk-free rate or the effective interest rate. Having the ability to select any rate other than the risk-free rate and the effective discount rate would introduce unnecessary complexity and create variability between portfolios and among companies, resulting in reduced comparability. Furthermore, calculating the effective interest rate on a portfolio basis may be operationally difficult for some preparers.

Additionally, we would appreciate further clarification from the boards on changes made subsequent to implementation. For example, once the decision is made to use either discounted or undiscounted estimates, would a preparer be allowed to switch? Also, would a preparer be allowed to change the discount rate factor subsequent to implementation (i.e., changing from the risk-free rate to the effective interest rate)?

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Question 12: Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (i.e. to recognize expected credit losses over the life of the assets)? Why or why not?

As discussed in Questions 3 and 9 above, we do not agree with the proposal to require a floor for the impairment allowance related to the good book. As such, we would prefer the IASB's approach for open portfolios.