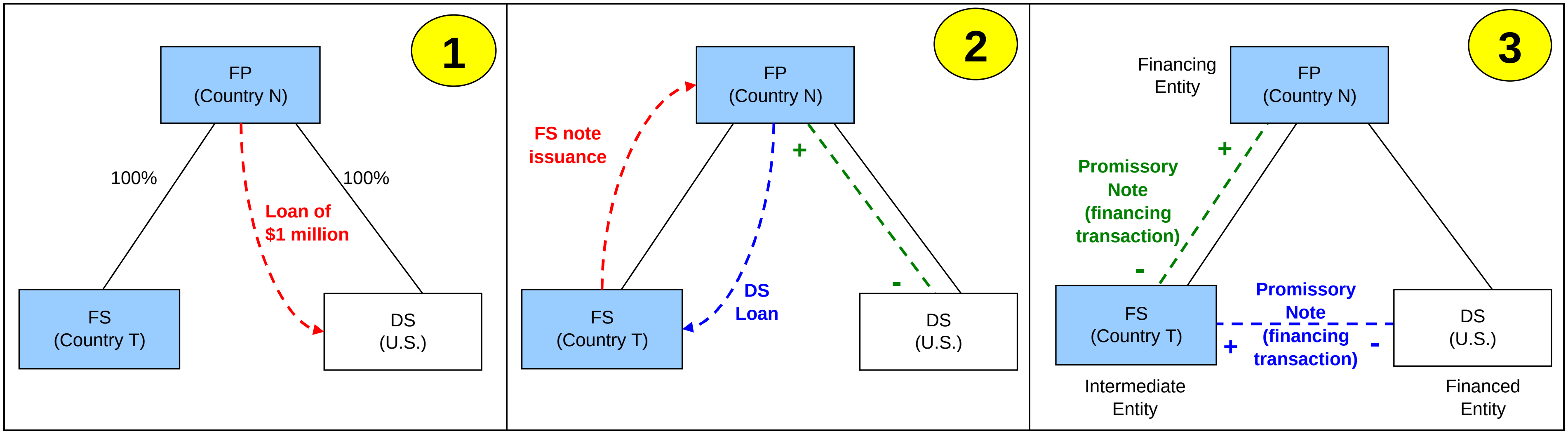
**Reg. 1.881-3(e), Example 2**
**(Conduit Financing Arrangements)**

# Back-to-Back Loan Treated as Financing Arrangement



**Intial Loan (Jan. 1, 1996)** | **Loan Assignment (Jan. 1, 1997)** | **Ending Point**




**Fin. Transaction + Fin. Transaction = Fin. Arrangement**

FP, a corporation organized in country N, owns all of the stock of FS, a corporation organized in country T, and DS, a corporation organized in the United States. Country T, but not country N, has an income tax treaty with the United States. The treaty exempts interest, rents and royalties paid by a resident of one state (the source state) to a resident of the other state from tax in the source state.

On January 1, 1996, FP lends $1,000,000 to DS in exchange for a note issued by DS. On January 1, 1997, FP assigns the DS note to FS in exchange for a note issued by FS. After receiving notice of the assignment, DS remits payments due under its note to FS. The DS note held by FS and the FS note held by FP are financing transactions and together constitute a financing arrangement.