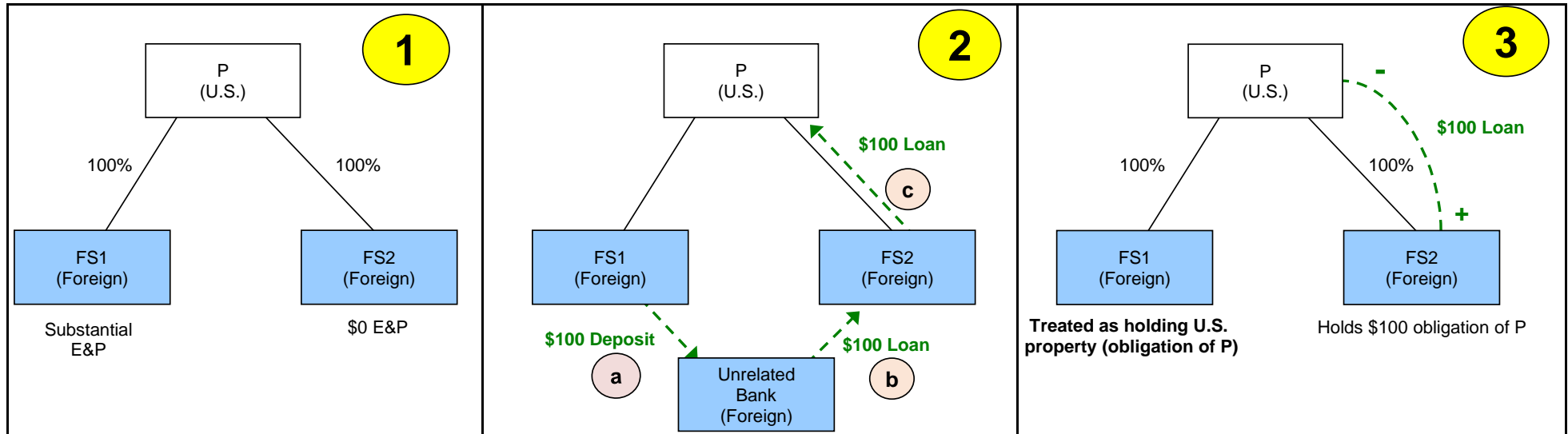


**U.S. Property Held Indirectly by a CFC -
Use of Unrelated Bank**

Initial Structure

Back to Back Loans

Ending Point



P is a domestic corporation that wholly owns two controlled foreign corporations, FS1 and FS2.

FS1 deposits \$100x with BK, an unrelated foreign financial institution. FS2 subsequently borrows \$100x from BK. BK would not have loaned the \$100x to FS2 on the same terms absent FS1's deposit. FS2 loans the \$100x borrowed from BK to P. FS2 has no earnings and profits, and FS1 has substantial accumulated earnings and profits. A principal purpose for the transactions is to avoid the application of Code §956 with respect to FS1.

FS1 is considered to hold indirectly United States property under Treas. Reg. §1.956-1(b) and Treas. Reg. §1.956-2(a) because FS1's deposit with BK, which facilitates BK's loan to FS2, is considered a funding by FS1 of FS2, a principal purpose of which was to avoid the application of Code §956 with respect to FS1.