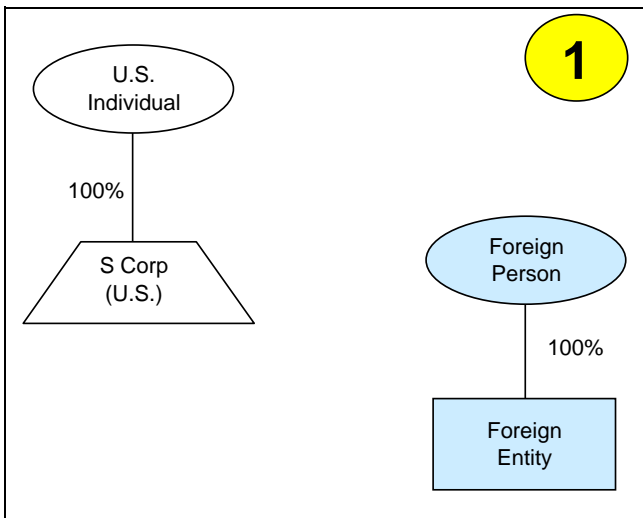
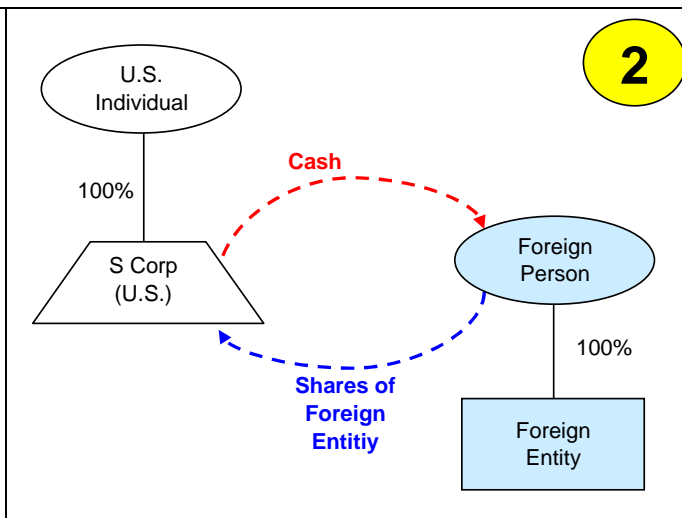


**Loss Importation Listed Transaction**

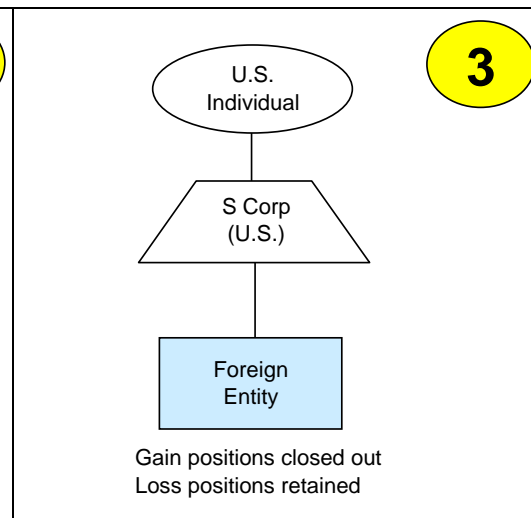
**Initial Structure**



**Stock Acquisition**

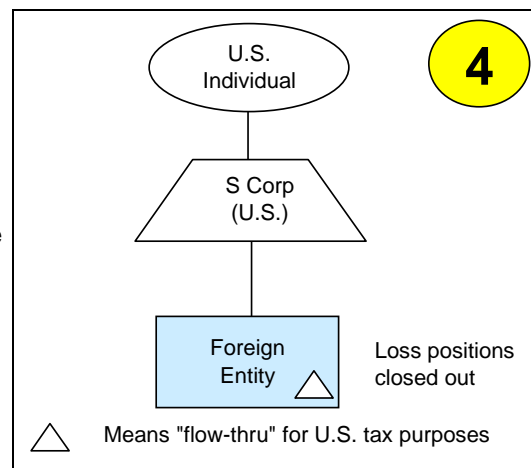


**Offsetting Positions**



A U.S. taxpayer (Taxpayer) is a shareholder of an S corporation. S Corporation acquires control of a foreign entity (Foreign Entity) by purchasing from a foreign shareholder stock of Foreign Entity meeting the requirements of §1504(a)(2). When S Corporation purchases the Foreign Entity stock, Foreign Entity is classified as a corporation for U.S. tax purposes under Reg. 301.7701-2(b)(2) and Reg. 301.7701-3(b)(2)(i)(B), and is a controlled foreign corporation (CFC) within the meaning of §957(a). Foreign Entity enters into substantially offsetting positions in foreign currency. Next, Foreign Entity disposes of or closes out some positions in the foreign currency for a gain while retaining the offsetting loss positions. Foreign Entity is not itself subject to U.S. taxation on the gains from the offsetting options. Foreign Entity may use the proceeds from these dispositions or closings out to enter into new positions in foreign currency. By entering into the new positions in foreign currency, Foreign Entity can effectively preserve the retained loss positions in the foreign currency and virtually eliminate further economic risk. After realizing gains from disposing of or closing out some of the offsetting positions, Foreign Entity elects to be disregarded as an entity separate from its owner for U.S. tax purposes. Based on the effective date of this election, Foreign Entity is not a CFC for an uninterrupted period of 30 days during Foreign Entity's taxable year, and S Corporation is not required to include any of Foreign Entity's subpart F income in its gross income. See §951(a). The gains are not otherwise subject to U.S. taxation. See, e.g., §§881 and 882. The election results in the distribution of all of Foreign Entity's assets and liabilities to its shareholder in a deemed liquidation of Foreign Entity. See Reg. §301.7701-3(g)(1)(iii). After the election, some or all of the loss positions in the foreign currency are allowed to expire, are disposed of, or are closed out, and some or all of the gain positions are allowed to expire, are disposed of, or are closed out, resulting in an aggregate net loss.

**Deemed Liquidation**



S Corporation passes Taxpayer's pro rata share of the loss through to Taxpayer. Taxpayer purports to have sufficient basis in its S Corporation stock or in its indebtedness to S Corporation to enable Taxpayer to claim the loss. The Service will challenge these transactions. Transactions that are the same as, or substantially similar to, the transactions described in this notice are identified as "listed transactions" for purposes of §§1.6011-4(b)(2) and §§6111 and 6112.