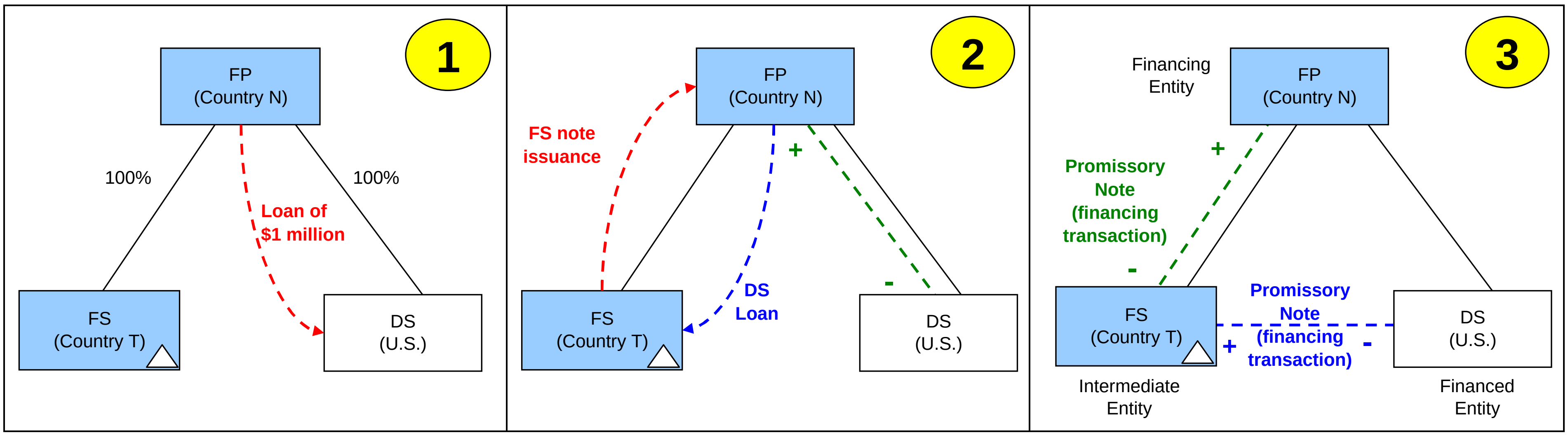
Reg. 1.881-3(e), Example 3
(Conduit Financing Arrangements)

Back-to-Back Loan With Disregarded Entity Treated as Financing Arrangement

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



△ Disregarded entity for U.S. tax purposes

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. FS is an entity that is disregarded as an entity separate from its owner under Reg. 301.7701-3.

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. FS, as a disregarded entity, is a person and therefore may itself be an intermediate entity that is linked by financing transactions to other persons in a financing arrangement. The DS note held by FS and the FS note held by FP are financing transactions and together constitute a financing arrangement.