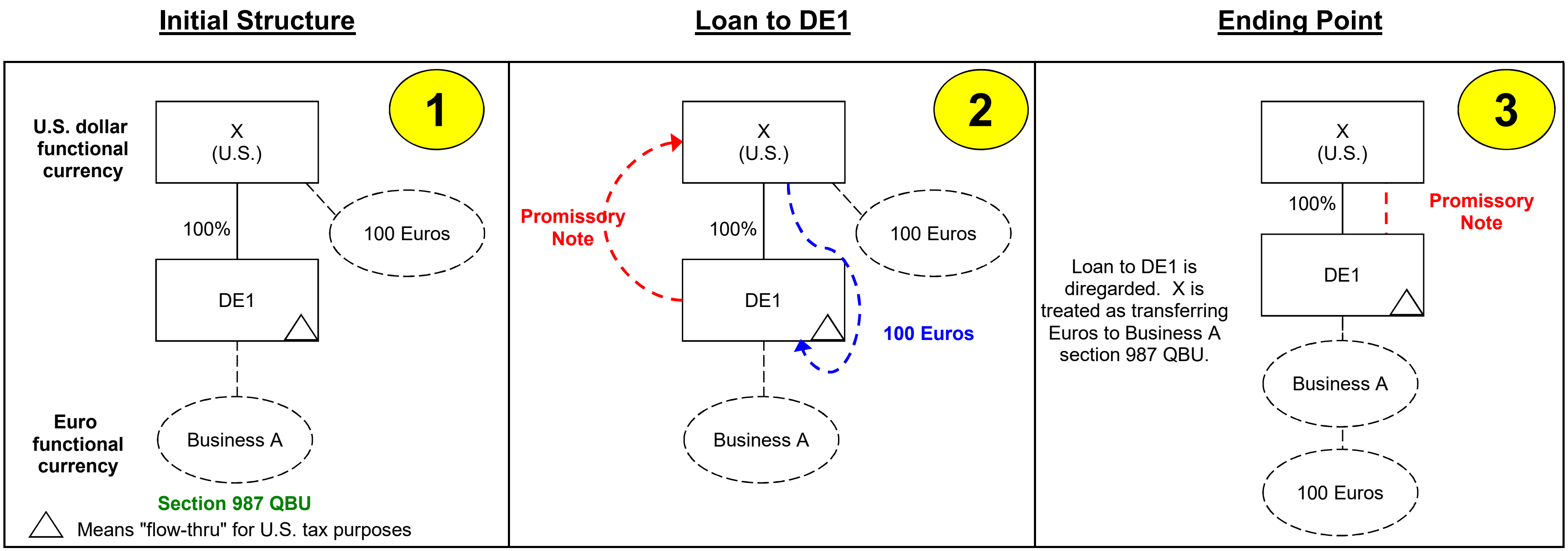
Reg. 1.987-2(c)(10), Ex. 1

Section 987: Disregarded Interbranch Transaction



X is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. DE1 is a disregarded entity. Business A is an eligible QBU that has the euro as its functional currency.

X owns all of the interests in DE1. DE1 owns Business A, which is a section 987 QBU of X. X owns [Euro]100 that are not reflected on the books and records of Business A. Business A is in need of additional capital and, as a result, X lends the [Euro]100 to DE1 for use in Business A in exchange for a note.

The loan from X to DE1 is not regarded for Federal income tax purposes (because it is an interbranch transaction) and therefore is a disregarded transaction (as defined in Treas. Reg. §1.987-2(c)(2)(ii)). As a result, the DE1 note held by X and the liability of DE1 under the note are not taken into account under this section.

As a result of the disregarded transaction, the [Euro]100 is reflected on the books and records of Business A. Therefore, X is treated as transferring [Euro]100 to its Business A section 987 QBU for purposes of section 987. This transfer is taken into account in determining the amount of any remittance for the taxable year under § 1.987-5(c). See Treas. Reg. §1.988-1(a)(10)(ii) for the application of section 988 to X as a result of the transfer of non-functional currency to its section 987 QBU.