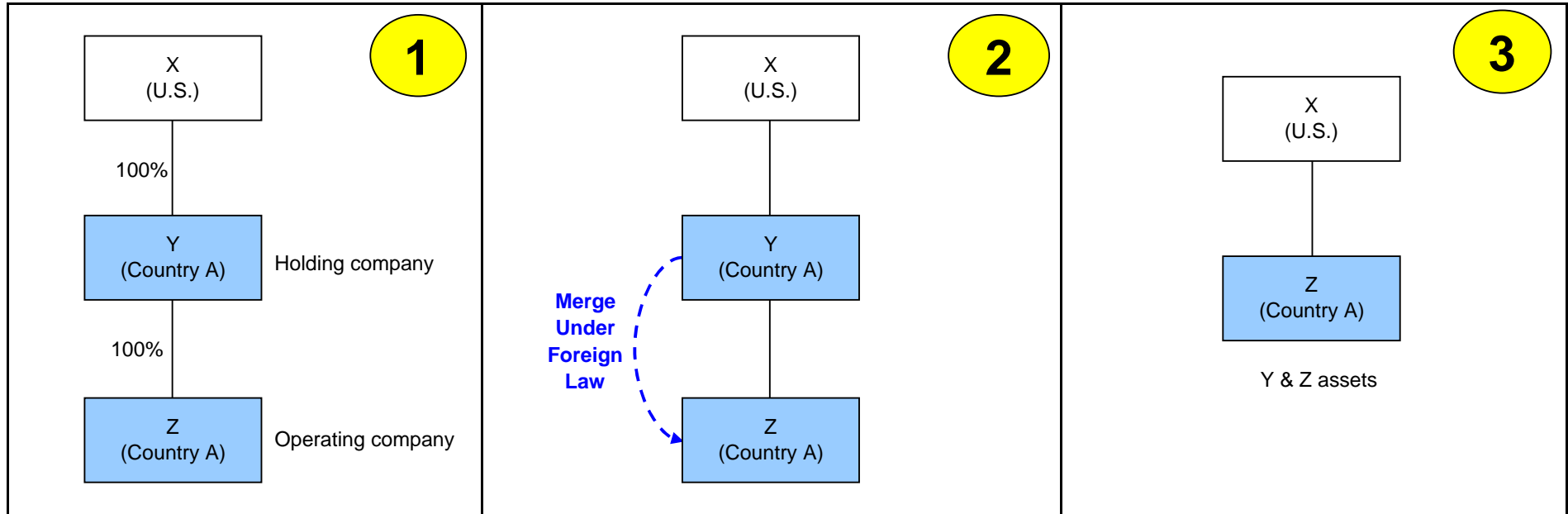


**Downstream Merger
of Foreign Corporation
was a D Reorganization**

Initial Structure

Downstream Merger

Ending Point



At the time of this ruling, the merger of two foreign corporations could not qualify as a reorganization under section 368(a)(1)(A). However, now see Reg. 1.368-2(b), which allows mergers under foreign law to qualify under section 368(a)(1)(A).

The ruling held that Z is treated as acquiring substantially all of the assets of Y (the Z corporation stock), even though the stock is transferred only for cancellation and will not be held by Z corporation as an asset. Section 354(b) was included in the law in order to prevent section 354(a)(1) from applying to exchanges relating to divisive reorganizations. The above merger does not involve a divisive reorganization. As a result, the reorganization qualifies as a section 368(a)(1)(D) reorganization.