UST, a domestic corporation, owns 100% of the stock of two foreign corporations, TFC and TFD. In 2003, USP transfers 100% of the stock of TFD to TFC in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and UST enters into a gain recognition agreement. UST also complies with the notice requirement under §1.367(b)-1(c). In 2005, TFC transfers its TFD stock to F1, also a foreign corporation, in an exchange to which section 351 applies. UST does not file a new gain recognition agreement under §1.367(a)-8(g)(2).

The rules of §1.367(a)-8 apply because the gain recognition agreement was filed before March 7, 2007. Under §1.367(a)-8(e), UST must recognize the gain realized, but not recognized, on its initial transfer of TFD stock. Treas. Reg.§ (h)(2)(i) does not apply because the rule in Treas. Reg.§ (e)(1)(ii) was already effective under §1.367(a)-8(g)(2). Therefore, UST's only recourse from recognizing the gain subject to the gain recognition agreement is the reasonable cause exception provided in §1.367(a)-8(c)(2).