FT, a publicly traded foreign corporation, forms FA, a foreign corporation, and then FA forms DMS, a domestic corporation, and FMS, a foreign corporation. FT merges with and into FA, with FA surviving the merger (FT-FA merger). Pursuant to the FT-FA merger, the FT shareholders exchange their FT stock solely for 1,000 shares of FA stock. Following the FT-FA merger, DMS merges with and into DT, also a publicly traded domestic corporation, with DT surviving the merger (DMS-DT merger). Pursuant to the DMS-DT merger, the DT shareholders exchange their DT stock solely for the remaining 1,000 shares of FA stock, and DT becomes a wholly owned subsidiary of FA. After the completion of the plan, FA wholly owns DT and FMS, DMS and FT cease to exist, and the stock of FA is publicly traded.

At the time of the FT-FA merger, FT does not hold nonqualified property and has no obligations. Accordingly, FA stock transferred by FA to FT in exchange for the property of FT is not disqualified stock described in Treas. Reg. §1.7874-4T(c)(1). Furthermore, the 1,000 shares of FA stock transferred by FT to the shareholders of FT in exchange for their FT stock do not constitute disqualified stock described in Treas. Reg. §1.7874-4T(c)(1). Although the FT stock is nonqualified property (the FT stock constitutes marketable securities within the meaning of Treas. Reg. §1.7874-4T(i)(7)(ii) because the stock of FT is publicly traded and FT is not a member of the expanded affiliated group that includes FA after the acquisition), under Treas. Reg. §1.7874-4T(c)(2), the transfer of FA stock by FT to the shareholders of FT neither increases the fair market value of the assets of FA nor decreases the liabilities of FA. Accordingly, no FA stock is disqualified stock described in Treas. Reg. §1.7874-4T(c)(1) and, therefore, the FA stock transferred in exchange for the assets of FT and the DT stock is included in the denominator of the ownership fraction. Thus, the ownership fraction is 1,000/2,000.