USP, a domestic corporation wholly owned by Individual A, owns all the stock of DT, a domestic corporation, as well as other property. The DT stock does not represent substantially all of the property of USP for purposes of Code §7874. Pursuant to a reorganization described in Code §368(a)(1)(D), USP transfers all the DT stock to FA, a newly formed foreign corporation, in exchange for 100 shares of FA stock (DT acquisition) and distributes the FA stock to Individual A pursuant to Code §361(c)(1).

The 100 FA shares received by USP are stock of a foreign acquiring corporation described in Code §7874(a)(2)(B)(ii) and, under Treas. Reg. §1.7874-5T(a), the shares retain their status as such even though USP subsequently distributes the shares to Individual A pursuant to Code §361(c)(1). Thus, the 100 FA shares are included in the ownership fraction, unless the shares are treated as held by members of the EAG for purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1 and are excluded from the ownership fraction under those rules. For purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1, the 100 FA shares, which constitute transferred stock under Treas. Reg. §1.7874-6T(f)(2), are treated as held by members of the EAG only if an exception in Treas. Reg. §1.7874-6T(c) applies. See Treas. Reg. §1.7874-6T(b). The U.S.-parented group exception described in Treas. Reg. §1.7874-6T(c)(1) does not apply. Although before the DT acquisition, USP (the transferring corporation) is a member of a U.S.-parented group of which USP is the common parent, after the DT acquisition, and taking into account all transactions related to the acquisition, each of USP, Individual A (the person that holds the transferred stock), and FA (the foreign acquiring corporation) are not members of a U.S.-parented group described in Treas. Reg. §1.7874-6T(c)(1)(ii)(A) or (B). Accordingly, because the 100 FA shares are not treated as held by members of the EAG, those shares are included in the numerator and the denominator of the ownership fraction. Therefore, the ownership fraction is 100/100.