On February 1, 1995, FP issues debt to the public that would satisfy the requirements of section 871(h)(2)(A) (relating to obligations that are not in registered form) if issued by a U.S. person. FP lends the proceeds of the debt offering to DS in exchange for a note.

The debt issued by FP and the DS note are financing transactions within the meaning of Reg. 1.881-3(a)(2)(ii)(A)(1) and together constitute a financing arrangement within the meaning of Reg. 1.881-3(a)(2)(i). The holders of the FP debt are the financing entities, FP is the intermediate entity and DS is the financed entity. Because interest payments on the debt issued by FP would not have been subject to withholding tax if the debt had been issued by DS, there is no reduction in tax under Reg. 1.881-3(a)(4)(i)(A). Accordingly, FP is not a conduit entity.