Pursuant to Treas. Reg. §1.987-1(b)(4)(i), U.S. Corp is the direct owner of Business A because it is the owner of the assets and liabilities of Business A. Because Business A is an eligible QBU with a functional currency that is different from the functional currency of its owner, U.S. Corp, Business A is a section 987 QBU (as defined in Treas. Reg. §1.987-1(b)(2)). As a result, U.S. Corp and its section 987 QBU, Business A, are subject to section 987.

Holding the stock of FC and pounds and servicing a liability does not constitute a trade or business within the meaning of Treas. Reg. §1.989(a)-1(c). Because the activities of DE1 do not constitute a trade or business within the meaning of Treas. Reg. §1.989(a)-1(c), such activities are not an eligible QBU. In addition, pursuant to Treas. Reg. 1.987-1(b)(3)(ii), DE1 itself is not an eligible QBU. As a result, neither DE1 nor its activities qualify as a section 987 QBU of U.S. Corp. Therefore, neither the activities of DE1 nor DE1 itself is subject to section 987. For the foreign currency treatment of payments on DE1's pound-denominated liability, see Treas. Reg. §1.988-2(b).