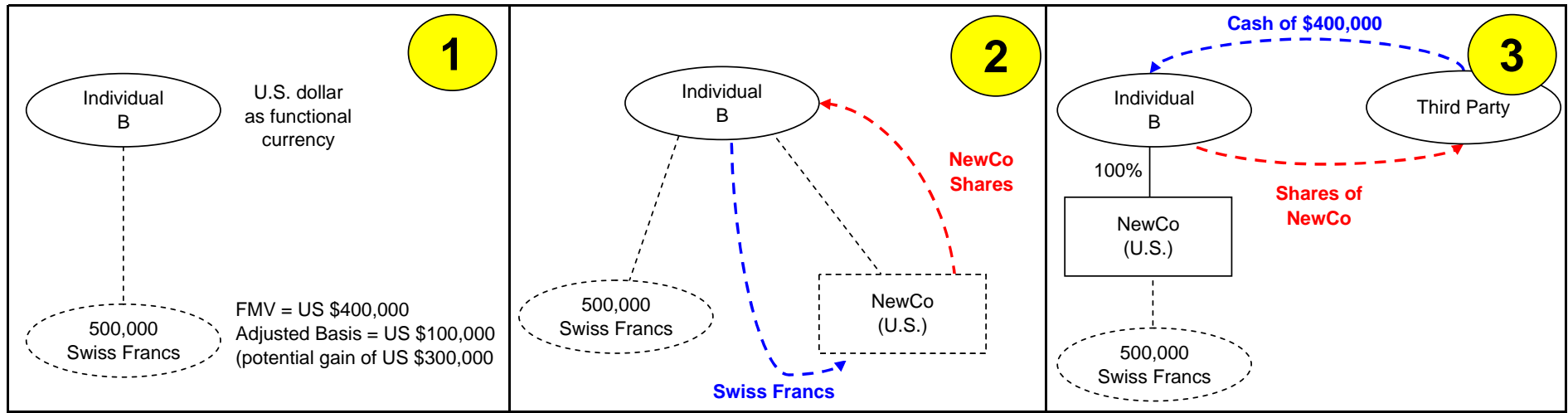


**Sale of Stock Treated
as Section 988 Transaction**

Initial Structure

351 Exchange

Sale of NewCo



B is an individual with the U.S. dollar as his/her functional currency. B holds 500,000 Swiss francs which have a basis of \$100,000 and a fair market value of \$400,000 as of October 15, 1989. On October 16, 1989, B transfers the 500,000 Swiss francs to a newly formed U.S. corporation, X, with the dollar as its functional currency. On October 16, 1989, B sells the stock of X for \$400,000. The example assumes that the transfer to X qualified for nonrecognition under section 351. Because the sale of the stock of X is a substitute for the disposition of an asset subject to section 988, the IRS may recharacterize the sale of the stock as a section 988 transaction. The result would be the same if B transferred the Swiss francs to a partnership and then sold the partnership interest.