Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

RATE AND SERVICE CHANGES TO IMPLEMENT FUNCTIONALLY EQUIVALENT NEGOTIATED SERVICE AGREEMENT WITH HSBC NORTH AMERICA HOLDING INC.	Docket No. MC2005-2

REQUEST OF THE UNITED STATES POSTAL SERVICE FOR A RECOMMENDED DECISION ON CLASSIFICATIONS, RATES AND FEES TO IMPLEMENT A FUNCTIONALLY EQUIVALENT NEGOTIATED SERVICE AGREEMENT WITH HSBC NORTH AMERICA HOLDING INC.

UNITED STATES POSTAL SERVICE

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February 23, 2005

Documents relating to this request may be served upon Mr. Foucheaux at the above address

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SERVICE AGREEMENT WITH HSBC NORTH AMERICA HOLDING INC.

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that it would be in the public interest, and in accordance with the policies and applicable criteria of that title, to implement the classifications, rates and fees contained in the attached Negotiated Service Agreement (NSA) with HSBC North America Holding Inc. (HSBC). Accordingly, the Postal Service requests that the Postal Rate Commission submit to the Governors of the Postal Service a decision recommending the changes proposed in this filing.

When it issued its recommended decision in Docket No. MC2002-2, the Commission made a finding

> that it is consistent with the policies of the Act for the Postal Service and the Commission to explore new methods of improving postal service efficiency through new economically beneficial rate programs. *See* § 403(a). During the course of this proceeding both the Commission and the Postal Service have gained knowledge about how NSAs may impact the postal system and its users. Continuing this process should lead to a healthier, more flexible system of economically efficient rates.

PRC Op., MC2002-2, at 158 (¶ 8040).

The HSBC NSA, appended here as Attachment F, is a negotiated contract founded on the operational and service relationship between the Postal Service and HSBC. It contains the same material terms and conditions as the NSA with Capital One Services, Inc. (Capital One), considered by the Commission in Docket No. MC2002-2.[1] Attachment A to this Request contains proposed Domestic Mail Classification Schedule (DMCS) language implementing the HSBC NSA, and Attachment B contains proposed Rate Schedule language.

The Commission's rules for consideration of NSAs properly separate so-called “baseline” NSAs from those that are "functionally equivalent" to baselines. Under those rules, review of functionally equivalent NSA proposals should require substantially less time for Commission consideration. In accordance with 39 C.F.R. § 3001.196, and for the reasons explained in the testimony and materials submitted with this filing, the HSBC NSA follows this lead and is submitted as functionally equivalent to the baseline Capital One NSA. As the Commission is aware, of course, functionally equivalent NSAs using the Capital One baseline have already been recommended for Discover Financial Services and Bank One.

It is worth noting that HSBC is a direct competitor of Capital One, Discover, and Bank One, and is in pertinent respects similarly situated. Harvey Testimony (HSBCT-1) at 3.[2] Accordingly, HSBC should have an opportunity to participate in a functionally

[1] Pursuant to Postal Service Board of Governors Resolution No. 03-8, the rates, fees, and classifications recommended by the Commission in Docket No. MC2002-2 were formally implemented on September 5, 2003.

[2] The Postal Service has reviewed the testimony of HSBC witness John Harvey and, in accordance with Rule 192 (b), 38 C.F.R. § 3001.192(b), states that such testimony may

equivalent NSA. As explained in the testimony filed, it is especially important in cases such as this one, where a party to an NSA is a direct competitor of a party to the baseline NSA, that the proceedings be expeditious. Dauer Testimony (USPS-T-1) at 22.

Under the Postal Service's proposals, the Postal Service, HSBC, and other mail users are expected to benefit. In particular, the changes proposed are expected to lead to a net reduction in the Postal Service's costs related to the handling of undeliverable-as-addressed mail. In addition, the changes are expected to enable HSBC to reduce its postage costs. If the volume conditions are met, the contribution to institutional costs required from other mailers will also be reduced.

1. Functional Equivalence.

As noted above, the Postal Service believes that the HSBC NSA is functionally equivalent to the Capital One NSA. The Commission pointed out in Docket No. RM2003-5, Order 1391 at 50, that whether an NSA is functionally equivalent to a baseline NSA depends upon a comparison of the literal terms and conditions of the NSAs, and a comparison of the effect that each NSA has on the Postal Service.

The comparison of literal terms and conditions focuses on whether each agreement rests on the same substantive functional elements. Order 1391 at 50. As explained in the testimony of Jessica Dauer (USPS-T-1) at 5-7, the HSBC NSA is based on the same key substantive functional elements that are central to the Capital One NSA and recommended changes -- an address correction element and a declining block element. As to the first element, if the DMCS is amended, the Postal Service

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be relied upon in presentation of the Postal Service’s direct case. See Dauer Testimony would provide to HSBC, at certain levels of volume, electronic address corrections without fee for solicitations sent by First-Class Mail that are undeliverable-as-addressed and cannot be forwarded under existing regulations. Agreement at ¶¶ I.and II. In return, HSBC would agree to forgo its current practice of receiving free return of such undeliverable mail, under the existing service features of First-Class Mail. Id. at ¶ II.B. As to the second element, if the foregoing conditions are met, HSBC would be eligible for per-piece discounts on certain of its First-Class Mail volume. Agreement at ¶¶ III.A and C. In addition, the HSBC NSA has a comparable effect on the Postal Service, including the provision of real ACS savings. Dauer Testimony (USPS-T-1) at 7-8.

Like the NSAs recommended by the Commission for Capital One, Discover, and Bank One, the HSBC NSA includes a cumulative cap on the amount of discounts the NSA partner can achieve over the duration of the agreement. In this instance, the cap level negotiated by the parties is $9 million. The approach employed to arrive at this figure is described in the Dauer Testimony at 12-13.

The Compliance Statement (Attachment E) contains a part-by-part analysis of differences between the HSBC NSA and the Capital One NSA. These differences do not, in any way, detract from the functional equivalency of the two NSAs. To the contrary, the Commission and the Postal Service anticipated that there would be differences between baseline and functionally equivalent agreements even if they shared the same terms and conditions. See PRC Op., MC2002-2, at 31-40, 136-42. See also DMCS § 610.12; DMM G911.

(USPS-T-1) at 2.

To be comparable to the Capital One NSA, an agreement need not contain identical terms, such as the level of First-Class Mail volume. PRC Op., MC2002-2, at 141. A review of the Compliance Statement (Attachment E) reveals that where there are differences in wording between the HSBC NSA and the Capital One NSA, the differences fall well within the parameters of DMM G911.

Accordingly, the Postal Service believes it is appropriate for the Commission to review and recommend the operative rate and classification elements of this NSA as functionally equivalent to the Capital One NSA, under the procedures specified in the Commissions Rules of Practice and Procedure (39 C.F.R. § 196).

2. Economic effects of the HSBC NSA on the Postal Service.

The overall cost, volume, and revenue effects of the HSBC NSA are relatively modest, both in the first year and in later years of the proposed agreement. The proposed NSA would apply to only one, discretely-positioned mailer. The duration of the rates, fees and classifications would be limited to three years by the terms of the NSA. The proposed changes would apply to the rates, fees and classifications for just Address Correction Service and First-Class Mail. No other mail classes or special services would be changed.

The impacts of the proposal are described fully in the testimony of Jessica Dauer (USPS-T-1) at 13-17; Appendixes A and B. The Postal Service estimates it will benefit by $6.1 million over the life of the NSA -- $6.6 million in ACS Cost Savings plus $3.9 million in increased contribution, minus $4.4 million in revenues referred to in the Capital

One proceedings as leakage.[3] Additionally, while the Postal Service remains unconvinced that any potential advantages of a cumulative discount cap outweigh potential disadvantages, in order to simplify litigation of the proposal, the NSA negotiated between HSBC and the Postal Service includes a proposed cumulative cap on discounts over the life of the agreement of $9 million.

Witness Dauer also estimates that there will be no postal gain or loss from the impact of the HSBC NSA on its competitors. Dauer Testimony (USPS-T-1) at 17-18. In providing her analysis of the competitive impact, witness Dauer relies upon the extensive evidence in the Capital One case. *See* Testimony of John C. Panzar, MC2002-2, Tr. 8/1571-1789; Testimony of B. Kelly Eakin, MC2002-2, Tr. 10/2060-2141.

It is worth noting that in its Opinion and Recommended Decision in the Capital One case, the Commission determined that the Capital One NSA's effect on competition was a minor concern, particularly since no participant alleged that the Capital One NSA will cause competitive harm. PRC Op., MC2002-2, at 79, 159. The competitive impact of extending the same terms and conditions to HSBC, a competitor of Capital One, should garner no greater level of concern. The converse is not true, however. Failure to permit HSBC access to the functionally equivalent NSA could be seen as discriminatory. Order 1391 at 52.

3. Other Matters

Attachment A to this Request includes the proposed addition of Domestic Mail Classification Schedule 613. Attachment B sets forth the proposed addition of Rate Schedule 613. To implement the HSBC NSA, the Postal Service requests that the

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[3] Witness Dauer refers to this amount as "discount exposure" in her testimony. Dauer

Commission recommend these additions. Among other provisions, DMCS 613 prescribes the criteria for determining eligibility of HSBC mail for the proposed rate changes, describes the conditions under which Address Correction Service fees would be waived, describes the manner and conditions under which discounts would be applicable to HSBC volume, and specifies a duration of three years for the NSA. As explained in witness Dauer's testimony, USPS-T-1 at 20-22, the Postal Service believes that these provisions would further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. *See* 39 U.S.C. §§ 101(a), 403(a), and 403(b). Witness Dauer also explains that the requested changes would conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

The NSA provides a foundation for these changes, which should be read in concert with the terms of the NSA. Among other provisions, the HSBC NSA specifies: (1) the key conditions making the NSA possible; (2) obligations undertaken by HSBC to ensure avoidance of the costs associated with handling of returned and forwarded mail; (3) volume thresholds (and annual adjustments thereto) pertaining to mail qualifying under the NSA for additional discounts; (4) information concerning other issues, such as monitoring, compliance, regulatory review, implementation, withdrawal, and cancellation; and (5) conditions affecting public communications, amendments, and notices.

Pursuant to the Commission's Rules of Practice and Procedure (particularly, 39 C.F.R. §§ 3001.193 and 3001.196), the Postal Service is filing with this Request prepared direct evidence on which it proposes to rely. In recognition that the HSBC

Testimony (USPS-T-1) at 13-14.

NSA is submitted as functionally equivalent to the baseline Capital One NSA, this evidence consists of one piece of testimony, including exhibits: the testimony of Jessica Dauer (USPS-T-1). Her role in connection with this NSA is similar to the one Michael K. Plunkett played in Docket No. MC2002-2 (USPS-RT-1), as well as the role played by Charles Crum (USPS-T-3) in that docket.

The rules for consideration of functionally equivalent NSAs provide opportunities for limitation of issues, and comparatively rapid consideration, compatible with participants' sufficient exercise of their due process rights. The Postal Service has filed with this request a Proposal For Limitation of Issues that outlines its expectations regarding the issues present in this case, as well as a listing of testimony from MC2002-2 on which it intends to rely in the Compliance Statement. These filings are in accordance with the procedural framework for baseline and functionally equivalent NSAs embodied in the Commission's rules.

The page following this Request is an index of Attachments. The testimony and exhibits have been marked for identification as shown in Attachment D. Further data submitted for informational purposes or in response to specific sections of the Rules of Practice are included in the other Attachments. The request also relies on record evidence from Docket No. MC2002-2, as identified in the Compliance Statement (Attachment E).

In accordance with the discussion, above, and the accompanying pleadings filed by the Postal Service and HSBC today,[4] other evidence on which the Postal Service

[4] United States Postal Service Proposal For Limitation of Issues; and Conditional Request of The United States Postal Service for Establishment of Settlement Procedures.

intends to rely is being filed today by HSBC. Evidence filed by both the Postal Service and HSBC is referenced in the Compliance Statement, filed as Attachment E to this Request.

The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 193 and 196 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.193 and 196). If the Commission later concludes that any specific requirement has not, need not, or cannot be met, the Postal Service respectfully reserves the right to move for a waiver of the pertinent filing requirements at that time.

Finally, it should be noted that the proposed data collection plan, Attachment C to witness Dauer's testimony, will provide the same types of data as the data collection plan in the Capital One case.

WHEREFORE, the Postal Service respectfully requests that the Commission submit a recommended decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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INDEX OF ATTACHMENTS TO REQUEST, MC2005-2
Rate And Services Changes To Implement Functionally Equivalent Negotiated Service Agreement With HSBC

Attachment A:	Domestic Mail Classification Schedule 613 Language
Attachment B:	Rate Schedule 613
Attachment C:	Certification
Attachment D:	Index of Testimonies, Exhibit Titles, and Associated Attorneys
Attachment E:	Compliance Statement
Attachment F:	Negotiated Service Agreement Between United States Postal Service and HSBC North America Holding Inc.

NEGOTIATED SERVICE AGREEMENTS CLASSIFICATION SCHEDULE

613 HSBC NORTH AMERICA HOLDINGS INC. NEGOTIATED SERVICE AGREEMENT

613.1 Eligible First-Class Mail

Eligible First-Class Mail under this section is defined as: (1) HSBC's First-Class Mail customer correspondence related to credit and banking products and services account holders; and (2) First-Class Mail solicitations for credit and banking products that bear an endorsement specified by the Postal Service. Eligible First-Class Mail does not include Business Reply Mail, Qualified Business Reply Mail, Cards, Priority Mail, or pieces that are not letter-shaped.

613.2 Waiver of Address Correction Fees

The fees for address correction in Fee Schedule 911 are waived for those First-Class Mail solicitations on which HSBC uses the endorsement specified by the Postal Service, if:

(a) HSBC mails more than 525 million pieces of Eligible First-Class Mail within the first year after implementation of this section, and

(b) HSBC updates any databases it maintains for solicitation mail, other than First-Class Mail customer correspondence related to account holders, as specified by the Postal Service.

If, during the first year after implementation, HSBC mails fewer than 525 million pieces of eligible First-Class Mail, HSBC agrees to pay the greater of either (1) all address correction service fees under Fee Schedule 911, as specified by the Postal Service, for pieces receiving address correction service, or (2) $200,000.

613.3 First-Class Mail Discounts

613.31 Discount Thresholds

The First-Class Mail Volume Threshold is set at 615 million pieces of eligible First-Class Mail for the first year of the agreement, 725 million pieces for the second year of the agreement, and 810 million pieces for the third year of the agreement.

613.32 Discounts

HSBC's eligible First-Class Mail is subject to the otherwise applicable First-Class Mail postage in Rate Schedule 221, less the discounts shown in Rate Schedule 613A for the first year of the agreement , in Rate Schedule 613B for the second year of the agreement, and in Rate Schedule 613C for the third year of the agreement, if HSBC meets the applicable Discount Threshold in any of those years. The discounts apply in each year only to volume above the Discount Threshold for that year. Each incremental discount applies only to the incremental volume within each volume block.

613.33 Annual Threshold Adjustments

The discount thresholds specified in section 613.31 for the second and third years of the agreement may be adjusted upward or downward based on the relationship between mail volumes forecasted by HSBC for the first and second years of the agreement, and the mail volumes actually tendered by HSBC in those years. To determine whether any adjustment is warranted under this provision, at the end of the first and second years of the agreement, percentage deviations will be calculated between the before-rates forecasts of HSBC's First-Class Mail and Standard Mail volumes for the year, and HSBC's actual volume in each category. An upward adjustment will be triggered if the actual volume of First-Class Mail exceeds the forecasted volume by more than 20 percent, and the actual volume of Standard Mail exceeds the forecasted volume by more than 5 percent. For years in which the upward adjustment is triggered, the discount threshold specified in section 613.31 for the next year will be increased by a percentage amount equal to the First-Class Mail volume percentage surplus, less 15 percent. A downward adjustment will be triggered if the forecasted volume of First-Class Mail exceeds the actual volume of First-Class Mail by more than 15 percent. For years in which a downward adjustment is triggered, the discount threshold specified in section 613.31 for the next year will be decreased by a percentage amount equal to the First-Class Mail volume percentage deficit, less 15 percent. Any new annual threshold amounts calculated under this provision will be rounded to the nearest whole million pieces of mail. For any year for which a new annual threshold amount has been derived pursuant to this provision, Rate Schedule 613D will be applicable in lieu of Rate Schedule 613B or 613C.

613.34 Threshold Adjustment for Mergers and Acquisitions; and Portfolio Activity

In the event that:

(a) HSBC merges with and/or acquires an entity and/or purchases a portfolio with annual First-Class Mail volume in excess of 10 million pieces, the discount threshold will be adjusted to add the volume of First-Class Mail sent by the merged or acquired entity, or on behalf of the purchased portfolio, during the 12 months preceding the merger, acquisition, or purchase. In that event, beginning in the succeeding fiscal quarter immediately following the date that mail volumes due to the merger, acquisition, or purchase begin to be mailed through the threshold permit accounts, Rate Schedule 613D would apply in lieu of Rate Schedule 613A, 613B, or 613C.

(b) HSBC in the first or second year of the agreement merges with or acquires multiple entities, or purchases multiple portfolios, that have combined annual First-Class Mail volume in excess of 25 million pieces, the discount thresholds for all succeeding years of the agreement will be adjusted upward to add the First-Class Mail volume sent by the merged or acquired entities, or on behalf of the acquired portfolios, for the 12 months prior to the date the mail of the merged entity is first mailed through the threshold permit accounts. In that event, in all succeeding years of the agreement, Rate Schedule 613D would apply in lieu of Rate Schedule 613B or 613C.

(c) HSBC loses or sells a portfolio with annual First-Class Mail volume of at least 10 million pieces, the discount threshold will be adjusted downward by the product of the number of active accounts lost or sold, multiplied by 12. In that event, beginning in the succeeding fiscal quarter immediately following the date that the mail volumes due to the loss or sale will no longer be mailed through the threshold permit accounts, Rate Schedule 613D will apply in lieu of Rate Schedule 613A, 613B, or 613C.

(d) In order to avoid double counting, any volumes used to make adjustments pursuant to these merger, acquisition, and portfolio activity provisions shall be excluded from calculation of the corresponding annual threshold adjustment pursuant to section 613.33.

613.35 Discount Limit

The maximum cumulative discount available to HSBC over the duration of this NSA shall not exceed $9 million.

613.4 Rates

The rates applicable to this Agreement are set forth in Rate Schedules 613A, 613B, 613C, and 613D.

613.5 Expiration

This provision (Section 613) expires 3 years from the implementation date set by the Board of Governors.

613.6 Precedence

To the extent any provision of section 613 is inconsistent with any other provision of the Domestic Mail Classification Schedule, the former shall control.

HSBC NORTH AMERICA HOLDING INC. NSA

RATE SCHEDULE 613A

(First Year of Agreement)

Volume Block	Incremental Discounts
615,000,001 to 655,000,000	2.5¢
655,000,001 to 675,000,000	3.0¢
675,000,001 to 695,000,000	3.5¢
695,000,001 to 715,000,000	4.0¢
715,000,001 to 735,000,000	4.5¢
735,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDING INC. NSA

RATE SCHEDULE 613B

(Second Year of Agreement)

Volume Block	Incremental Discounts
725,000,001 to 765,000,000	2.5¢
765,000,001 to 785,000,000	3.0¢
785,000,001 to 805,000,000	3.5¢
805,000,001 to 825,000,000	4.0¢
825,000,001 to 845,000,000	4.5¢
845,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDING INC. NSA

RATE SCHEDULE 613C

(Third Year of Agreement)

Volume Block	Incremental Discounts
810,000,001 to 850,000,000	2.5¢
850,000,001 to 870,000,000	3.0¢
870,000,001 to 890,000,000	3.5¢
890,000,001 to 910,000,000	4.0¢
910,000,001 to 930,000,000	4.5¢
930,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDING INC. NSA

RATE SCHEDULE 613D
FOR ADJUSTED THRESHOLDS (A.T.)

Volume Block	Incremental Discounts
(A.T.) to (A.T+40,000,000)	2.5¢
(A.T.+40,000,001) to (A.T.+60,000,000)	3.0¢
(A.T.+60,000,001) to (A.T.+80,000,000)	3.5¢
(A.T.+80,000,001) to (A.T.+100,000,000)	4.0¢
(A,T,+100,000,001) to (A.T.+120,000,000)	4.5¢
(A.T.+120,000.001) and above	5.0¢

CERTIFICATION

I, William P. Tayman, Jr., Manager, Corporate Financial Planning, Finance Department, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on Rate and Service Changes to Implement the HSBC NSA, together with the accompanying direct testimony and exhibits.

Pursuant to Rule 193(i) of the Postal Rate Commission's Rules of Practice and Procedure, 39 C.F.R. §3001.193(i), I hereby certify that I have read the Request, that the cost statements and supporting data submitted by the Postal Service as part of the Request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books.

William P. Tayman, Jr.

INDEX OF TESTIMONIES: DOCKET NO. MC2005-2

WITNESS	TESTIMONY	EXHIBIT TITLE	EXHIBIT NO.	WORKPAPERS	ATTORNEY
Ms. Dauer	USPS-T-1	None		None	Eric Koetting 202-268-2992

COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 193 and 196 of the Commission's Rules of Practice and Procedure (39 CFR §§3001.193 and 3001.196). Where information required by these rules is not included in direct testimony or exhibits of the Postal Service's witness, it is contained in the Request or its attachments, or has been incorporated by reference in the Request, testimony, exhibits, or attachments made available to the Commission in Docket Nos. R2001-1 and MC2002-2. Alternatively, if it is subsequently determined that the Postal Service has not fulfilled any particular filing requirement, the Postal Service reserves its right thereafter to request waiver of such requirement.

RULE: 193(b)

REQUIREMENT: This rule requires that a copy of the Negotiated Service Agreement be filed with the Request.

A copy of the Negotiated Service Agreement is filed as Attachment F to the Request.

RULE: 193(c)

REQUIREMENT: This rule requires a description of the proposed rates, fees, and/or classification changes, including proposed changes, in legislative format, to the text of the Domestic Mail Classification Schedule and any associated rate or fee schedule.

Attachment A to this Request includes the proposed additions to the Domestic Mail Classification Schedule. Attachment B sets forth the proposed additions to the Rate Schedule.

RULE: 193(d)

REQUIREMENT: This rule requires a statement describing and explaining the operative components of the Negotiated Service Agreement, and requires that this statement include the reasons and bases for the components in the Negotiated Service Agreement.

The statements required by this rule are contained within the testimony of witnesses Jessica Dauer (USPS-T-1) and John Harvey (HSBC-T-1).

RULE: 193(e)(1)

REQUIREMENT: This rule requires an analysis of the effects of the Negotiated Service Agreement on Postal Service volumes, costs and revenues in a one year period intended to be representative of the first year of the proposed agreement. This financial analysis shall:

(i) set forth the estimated mailer-specific costs, volumes and revenues of the Postal Service for that year, assuming the then effective postal rates and fees absent the implementation of the Negotiated Service Agreement;

(ii) set forth the estimated mailer-specific costs, volumes, and revenues of the Postal Service for that year which result from the implementation of the Negotiated Service Agreement;

(iii) include an analysis of the effects of the Negotiated Service Agreement on contribution to the Postal Service for that year (including consideration of the effect on contribution from mailers who are not parties to the agreement);

(iv) utilize mailer-specific costs for that year, and provide the basis used to determine such costs, including a discussion of variances between mailer-specific costs and system-wide average costs; and

(v) utilize mailer-specific volumes and elasticity factors for that year, and provide the bases used to determine such volumes and elasticity factors.

If mailer-specific costs or elasticity factors are not available, the bases of the costs or elasticity factors that are proposed shall be provided, including a discussion of the suitability of the proposed costs or elasticity factors as a proxy for mailer-specific costs or elasticity factors.

The analysis required by this rule is contained within the testimonies of witnesses Jessica Dauer (USPS-T-1) and John Harvey (HSBC-T-1).

RULE: 193(e)(2)

REQUIREMENT: This rule requires that if a Negotiated Service Agreement is proposed to extend beyond one year, the request shall include an analysis of the effects of the agreement on Postal Service volumes, costs, and revenues in each subsequent year of the proposed agreement. This financial analysis shall:

(i) identify each factor known or expected to operate in that subsequent year which may have a material effect on the estimated costs, volumes, or revenues of the Postal Service, relative to those set forth in the financial analysis provided for the first year of the agreement in response to Rule 193(e)(1). Such relevant factors might include (but are not limited to) cost level changes, anticipated changes in operations, changes arising from specific terms of the proposed agreement, or potential changes in the level or composition of mail volumes;

(ii) discuss the likely impact in that subsequent year of each factor identified in Rule 193(e)(2)(i), and quantify that impact to the maximum extent practical; and

(iii) estimate the cumulative effect in that subsequent year of all factors identified in Rule 193(e)(2)(i) on the estimated costs, volumes, and revenues of the Postal Service, relative to those presented for the first year of the agreement in response to Rule 193(e)(1).

The analysis required by this rule is contained within the testimonies of witnesses Jessica Dauer (USPS-T-1) and John Harvey (HSBC-T-1).

RULE: 193(f)

REQUIREMENT: This rule requires an analysis of the impact, over the duration of the Negotiated Service Agreement, of the agreement on:

(1) competitors of the parties to the Negotiated Service Agreement other than the Postal Service;

(2) competitors of the Postal Service; and

(3) mail users.

The Postal Service shall include a copy of all completed special studies that were used to make such estimates. If special studies have not been performed, the Postal Service shall state this fact and explain the alternate basis of its estimates.

The analysis required by this rule is contained within the testimony of witness Jessica Dauer (USPS-T-1).

RULE: 193(g)

REQUIREMENT: This rule requires a proposal for a data collection plan, which shall include a comparison of the analysis presented in Rule 193(e)(1)(ii) and 193(e)(2)(iii) with the actual results ascertained from implementation of the Negotiated Service Agreement. The results shall be reported to the Commission on an annual or more frequent basis.

The proposed data collection plan is contained in the testimony of witness Jessica Dauer (USPS-T-1). It is similar to the Data Collection Plan recommended by the Commission and approved by the Governors of the Postal Service in MC2002-2. If the Commission subsequently concludes that this data collection plan does not fully comply with the requirements of this rule, the Postal Service reserves its right thereafter to request that those requirements be waived.

RULE: 193(h)

REQUIREMENT: This Rule requires seven sets of workpapers to be filed with the Request.

There are no workpapers in this case.

RULE: 193(i)

REQUIREMENT: This Rule requests one or more certifications stating that the cost statements and supporting data submitted as part of the formal request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books. The requested certification is to be signed by one or more representatives of the Postal Service authorized to make such certification.

The certification is submitted as Attachment C to this Request.

RULE: 196(a)(1)

REQUIREMENT: This Rule requires a detailed description of how the proposed Negotiated Service Agreement is functionally equivalent to the baseline agreement.

The required description is included in the testimony of witness Jessica Dauer (USPS-T-1).

RULE: 196(a)(2)

REQUIREMENT: This Rule requires a detailed description of how the proposed Negotiated Service Agreement is different from the baseline agreement.

The following description encompasses differences between the HSBC NSA and the NSA negotiated between the Postal Service and Capital One, as well as differences relating to additional provisions recommended by the Commission with respect to the Capital One NSA that had not been included in the original agreement between the parties. Provisions of the HSBC NSA omitted from the following description are those which did not materially change between the Capital One NSA and the proposed HSBC NSA. Unless otherwise noted, citations to section numbers refer to the pertinent sections of the HSBC NSA.

Part I - Key Conditions for NSA Treatment

- ¶ 1.A - states that HSBC has mailed 425,000,000 pieces of First-Class Mail, as compared to a figure of 1 billion pieces for Capital One.

- (Capital One ¶ I.C) – the Capital One NSA contained a provision not in the HSBC NSA, because HSBC does not maintain its own production site in which the Mail Piece Total Quality Management ("MPTQM") program could be installed, as compared to Capital One, which was already being MPTQM certified at its Richmond production site.

- ¶ I.C - states that for First-Class Mail, HSBC uses only addresses that have been processed against National Change of Address / Coding Accuracy Support System (“NCOA/CASS”) databases within the 90 days prior to mailing. In comparison, Capital One: (1) for First-Class Mail correspondence with established account holders (operational mail), used only addresses that had been processed against NCOA/CASS databases within the 30 days prior to mailing; and (2) for First-Class Mail solicitations, the time period was 60 days.

- ¶ I.E - states that HSBC's mail relates to its "own credit and banking products and services business" (in compliance with DMM G911.2.1.g), whereas the Capital One NSA did not include the quoted language.

- ¶ I.G - notes that the Agreement complies with DMM G911, which resulted from the settlement of the Capital One NSA case and could not have been included in the Capital One NSA.

Part II - Address and Other Quality Issues

- ¶ II.A. - includes an explicit agreement establishing “conditional check mail” as an exception to the requirement that all solicitation mail be endorsed as CSR. The Capital One NSA had no such exception.

- (Capital One ¶ II.B.) The Capital One NSA included a provision regarding expected implementation of CSR, Option 2, which has now already occurred, and that provision is thus omitted from the HSBC NSA.

- ¶ II.B - reflects the fact that HSBC does not currently maintain the type of address database for solicitation mail that Capital One maintained, but will use the ACS notices in the best practical manner (in compliance with DMM G911.2.1.e). Compared with the commitment in the Capital One NSA to update databases within two days, in light of the different nature of its database, HSBC commits to within ten days. The HSBC NSA also contains a provision regarding address sources not maintained by HSBC. The Capital One NSA had no similar provision, due to the lack of need.

- ¶ II.D - contains a different minimum volume requirement (525 million First Class Mail pieces, as compared to the Capital One NSA's requirement of 750 million First-Class Mail pieces), as well as a different penalty ($200,000 for HSBC, as compared to $1,000,000 for Capital One). These two figures are reflective of the differences in the amount of First-Class Mail usage by the two entities.

- ¶ II.G requires HSBC to use addresses that have been processed against NCOA/CASS databases within 90 days of mailing, as compared to 30 days for customer mail and 60 days for solicitation mail in the Capital One NSA.

- (Capital One ¶ II.I) - The Capital One NSA contained a requirement regarding the MPTQM program, but since that program is inapplicable to HSBC, that provision is omitted from the HSBC NSA.

<u>Part III - Volume Threshold Issues</u>

-¶ III.B- The HSBC NSA contains a negotiated cap of $9 million for the "maximum cumulative discount available to HSBC over the duration of the agreement," whereas the Capital One Agreement did not include a negotiated cap. Instead, in the Capital One case, the Commission’s recommendation of the NSA was conditioned on imposition of a $40.6 million cumulative cap.

- ¶ III.C - reflects the fact that First-Class Mail counting towards thresholds relates to "credit and banking products and services" (in compliance with DMM G911 § 2.1.c), whereas such a term was not included in the Capital One NSA.

Also, unlike the Capital One NSA, the HSBC NSA allows solicitation mail bearing "conditional checks" to qualify as "operational" mail and to be exempted from the CSR endorsement requirement. Lastly, unlike the Capital One NSA, the HSBC agreement explicitly excludes pieces that are not letter-shaped.

- ¶ III.D – corresponds to paragraphs III.D – III.G of the Capital One NSA, with substantial differences. Not only are the threshold levels and the range of available discounts different, but specified threshold levels have been negotiated with HSBC for each year of the agreement.

- ¶ III.F - allows for annual adjustments in the negotiated volume thresholds for the out years to reflect major deviations between HSBCs volume forecasts and actual volumes in earlier years. These adjustments are intended to ensure that the incentives will remain in place for HSBC to increase its volumes of First-Class Mail solicitations, while also protecting the Postal Service against excessive discount leakage from mail volume that would likely have been sent even without additional discounts. There is no directly comparable provision in the Capital One NSA, in which the thresholds were essentially static over the three years of the agreement., but section III.F of the Capital One agreement was likewise intended to create a mechanism by which incentives to expand volume would continue in the out years even with a volume shortfall in the first year.

- ¶ III.G-I. closely tracks the language for mergers and acquisitions in the Capital One NSA, with the exception that the Capital One Agreement did not discuss purchases of portfolios. The Capital One NSA did not have Paragraphs III.H and III.I.

- ¶ III.J - is generally similar to ¶ III.J of the Capital One NSA. The HSBC NSA allows HSBC 30 days notice to respond to an invoice to reconcile overpayment of discounts, as opposed to 5 days for Capital One before deductions were made from its CAPS account.

Part IV - Compliance and Other Issues

- ¶ IV.A.2 - specificies the procedure under which the Postal Service will open certain returned HSBC First-Class Mail pieces, and complies with DMM G911.2.1.b and g. The Capital One NSA did not include this level of specificity.
- ¶ IV.B. – provides that HSBC does not waive any appeal rights provided by Postal Service regulations.
- ¶ IV.C.—provides that implementation shall be on the date set by the Board of Governors, after all appropriate regulatory approvals.
- ¶ IV.D.1 - specifies that the HSBC NSA will be requested to be reviewed as functionally equivalent to the Capital One NSA.
- ¶ IV.D.2 - reflects the fact that under the new rules, HSBC will file a direct case, as opposed to intervening.
- ¶ IV.D.8. – is a new provision in the HSBC NSA regarding the obligations of the parties with respect to post-proceeding data collection reports, studies, and analyses.
- ¶ IV.E. – includes a new provision in the HSBC NSA regarding the discretion of the Board to implement waiver of the ACS fees up to two months before the discounts and related provisons.

- ¶ IV.F.6 - includes a provision that allows HSBC to terminate the Agreement if, during the litigation before the Commission, it is required to divulge information it deems confidential, and which, in its business judgment, it does not wish to reveal. While the Capital One NSA did not contain this language, Capital One could have achieved the same result, by refusing to divulge such information and asking to have the case dismissed.

- ¶ IV.H. - contains a provision specifying that the Contract Disputes Act, 41 U.S.C. § 601 et seq., does not apply to disputes arising from the NSA. While this paragraph did not appear in the Capital One NSA, it merely puts the NSA partner on notice that this law is inapplicable, and it is the position of the Postal Service that it would have been inapplicable in the Capital One case.

- ¶ VI. - contains a standard provision on assignability that was not included in the Capital One NSA.

- ¶ VII. - contains a provision limiting the applicability of the agreement to HSBC subsidiaries operating in the United States; no comparable provision was deemed necessary in the Capital One NSA.

RULE: 196(a)(3)

REQUIREMENT: This Rule requires identification of the record testimony from the baseline agreement docket, or any previously concluded docket, on which the Postal Service proposes to rely, including specific citations to the locations of such testimony.

The Postal Service proposes to rely on the following record testimony from the baseline agreement docket (Docket No. MC2002-2):

Anita J. Bizzotto - USPS-T-1, accepted into the record at Vol. 3:411; Vol. 3:410-530

Michael K. Plunkett - USPS-T-2, accepted into the record at Vol. 4:674; Vol. 4:673-851; Vol. 5:865-66; Vol. 9:1857-1961 (USPS-RT-1)

Charles R. Crum - USPS-T-3, accepted into the record at Vol. 2:254; Vol. 2:252-400; Vol. 5:858-864

James D. Wilson - USPS-T-4, accepted into the record at Vol. 3:532; Vol. 3:531-666

B. Kelly Eakin - Vol. 10:2060-2140 (USPS-RT-2)

Institutional Responses of United States Postal Service - Vol. 5: 867-966

John C. Panzar - Vol. 8:1572-1790 (JCP-T-1)

Donald Jean - Vol. 2:34-198 (COF-T-1)

Stuart Elliott - Vol. 2:198-251 (COF-T-2)

- Vol. 9:1836-1872 (COF-RT-2)

Robert Shippee - Vol. 9:1797-1835 (COF-RT-1)

RULE: 196(a)(4)

REQUIREMENT: This Rule requires the Postal Service to include all available special studies developing information pertinent to the proposed Negotiated Service Agreement.

The Postal Service did not conduct any special studies in relation to this proposed Negotiated Service Agreement.

RULE: 196(a)(5)

REQUIREMENT: This Rule requires the identification of circumstances unique to this request.

The Postal Service does not believe that there are any circumstances unique to this request, beyond those discussed in response to Rule 196(a)(2).

RULE: 196(a)(6)

REQUIREMENT: This Rule requires that the Postal Service include with its request, if applicable, a proposal for limitation of issues in the proceeding.

The proposal for limitation of issues is being filed contemporaneously with this request.

NEGOTIATED SERVICE AGREEMENT

BETWEEN

THE UNITED STATES POSTAL SERVICE

AND

HSBC NORTH AMERICA HOLDINGS INC.

**NEGOTIATED SERVICE AGREEMENT BETWEEN
UNITED STATES POSTAL SERVICE AND
HSBC NORTH AMERICA HOLDINGS INC.**

This Agreement ("Agreement") is made as of February 15, 2005, (the "Agreement Effective Date") by and between HSBC North America Holdings Inc., a Delaware corporation, with its principal place of business located at 2700 Sanders Road, Prospect Heights, Illinois 60070, and its subsidiaries and affiliates ("HSBC"), and the United States Postal Service ("Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law 91-375, with its principal office at 475 L'Enfant Plaza, SW, Washington, DC 20260. The Postal Service and HSBC are referred to herein collectively as the "Parties" and each singly as a "Party."

WHEREAS, it is the intention of the Parties to enter into a functionally equivalent Negotiated Service Agreement ("NSA") to that of Capital One in Docket No. MC 2002-2, that will benefit the Postal Service, the postal system as a whole, and HSBC, and that will comply with the requirements of the Postal Reorganization Act, and

WHEREAS, it is the intention of the Postal Service to make available a functionally equivalent agreement to other mailers,

NOW, THEREFORE, the Parties agree as follows:

I. Key Conditions for NSA Treatment:

The Postal Service finds that the following key conditions, taken together, support this Negotiated Service Agreement:

A. HSBC has mailed, for at least each of the last three full calendar years, a minimum of 425,000,000 pieces of First-Class Mail.

B. HSBC agrees to receive electronic information about its undeliverable-as-addressed solicitations sent as First-Class Mail, instead of physical return of the pieces.

C. For First-Class Mail, HSBC uses only addresses that have been processed against National Change of Address / Coding Accuracy Support System ("NCOA/CASS") databases within the 90 days prior to mailing.

D. HSBC can document the number of returns of undeliverable-as-addressed ("UAA") First-Class Mail.

E. HSBC's mail relates to its own credit and banking products and services business, including, but not limited to, sales and other promotions run in conjunction with HSBC's strategic partners or as part of strategic alliances with other entities.

F. HSBC does not use Address Correction Service ("ACS") as a means to qualify with the published Postal Service Move Update requirements for automation compatible First-Class Mail.

G. This Agreement complies with Domestic Mail Manual ("DMM") § G911, in effect on the date this contract is executed.

II. Address and Other Quality Issues

A. HSBC will apply the endorsement “Change Service Requested” ("CSR") to all First-Class Mail solicitations and comply with Postal Service rules and regulations associated with this endorsement, unless mutually agreed to in writing by both Parties. HSBC will receive the service associated with CSR, Option 2, which will include forwarding. After providing the service associated with this endorsement, the Postal Service will dispose of the mail in accordance with applicable Federal laws and Postal Service operating instructions. The Parties, however, hereby mutually agree that one exception to the requirement that the CSR endorsement be applied to all First-Class Mail solicitations will be solicitation mail that contains convenience checks, which will continue to be endorsed “Return Service Requested” and treated by the Postal Service in accordance with that endorsement.

B. Consistent with Article II, Paragraph D, the Postal Service will waive the fees for ACS notices for solicitations that comply with the rules and regulations associated with the CSR, Option 2 endorsement. In exchange for a waiver of ACS fees, HSBC agrees:

1. For any address database it maintains for solicitation mail other than First-Class Mail customer correspondence related to current account holders, HSBC will update that database within 10 business days and use the information in future mailing campaigns.

2. For every mailing whose address source is not maintained by HSBC, HSBC agrees to forward the ACS notices to the third party, or to arrange to have the Postal Service forward the ACS notices directly to the third party. HSBC will request that the third party use these data for all future HSBC marketing campaigns. HSBC will ensure that the data are not used for any mailings other than HSBC mailings.

3. In addition, HSBC agrees that it will demonstrate how its systems' procedures assure that it complies with this paragraph, and it will retain records auditable by the Postal Service that so demonstrate.

C. In accordance with Article II Paragraphs A and B above, HSBC will become an active ACS participant for its First-Class Mail solicitation mailings for the duration of the Agreement. It will comply with all rules and regulations associated with the use of ACS endorsements.

D. If, by the end of the first year of this Agreement, HSBC mails less than 525,000,000 First-Class Mail pieces, as defined in Article III, Paragraph C, HSBC agrees to pay the greater of either (1) all applicable ACS fees for the first year of this Agreement; or (2) $200,000. HSBC authorizes the Postal Service to deduct the amount from its Centralized Account Processing System (CAPS) account, upon five days notice of the amount due. Should the account have insufficient funds, HSBC will pay the remaining amount owed within five days of receipt of notice.

E. The waiver/suspension of fees does not apply to the use of any ancillary address correction endorsements other than the CSR endorsement authorized for First-Class Mail solicitations.

F. HSBC agrees that it cannot use the CSR endorsement as a means to comply with the published Postal Service Move Update requirements for automation compatible First-Class Mail. HSBC will continue to comply with Move Update requirements for First-Class Mail through either NCOA match, FastForward, or other Postal Service approved methods.

G. HSBC agrees that for its First-Class Mail, it will only use addresses that have been processed against NCOA/CASS databases within the 90 calendar days prior to mailing.

III. Volume Threshold Issues

A. In exchange for HSBC’s compliance with the Address Management terms, and for its agreement to accept electronic address corrections for its First-Class Mail solicitations rather than physical return of such pieces, declining block rates of postage will be available for volumes above certain thresholds of such First-Class Mail as defined in Article III, Paragraph C. The declining block rates will be calculated by applying the discounts specified below to the otherwise applicable rates of postage. The discounts specified below apply only to the incremental volumes within each volume block.

B. HSBC agrees to pay the otherwise applicable rates of postage at the time the mail is entered. The Postal Service will provide HSBC with credits of the appropriate amounts of the discounts as specified in Article III. The maximum cumulative discount available to HSBC over the duration of this NSA shall not exceed $9 million.

C. Thresholds: First-Class Mail that will be counted toward the 525,000,000 piece threshold under Article II, Paragraph D, and toward the First-Class Mail thresholds set forth in Article III, Paragraph D, and will be eligible for discounts is limited to:

1. All First-Class Mail “operational mail,” defined as either customer correspondence related to credit and banking products and services to current account holders; or solicitation mail that contains convenience checks and is endorsed “Return Service Requested”.

2. First-Class Mail solicitations for credit and banking products and services that bear the CSR endorsement and comply with Postal Service rules and regulations associated with this endorsement.

Postcards, Qualified Business Reply Mail, Priority Mail, Business Reply Mail ("BRM"), and pieces that are not letter-shaped will not be counted toward the threshold, nor will they be eligible for block discounts.

D. Given the threshold for the first year at 615,000,000, then the declining block rates are calculated based on the following discounts:

Volume Block	Incremental Discounts
615,000,001 – 655,000,000	$.025
655,000,001 – 675,000,000	$.030
675,000,001 – 695,000,000	$.035
695,000,001 – 715,000,000	$.040
715,000,001 – 735,000,000	$.045
735,000,001 -	$.050

Given the threshold for the second year at 725,000,000, then the declining block rates are calculated based on the following discounts:

Volume Block	Incremental Discounts
725,000,001 – 765,000,000	$.025
765,000,001 – 785,000,000	$.030
785,000,001 – 805,000,000	$.035
805,000,001 – 825,000,000	$.040
825,000,001 – 845,000,000	$.045
845,000,001 -	$.050

Given the threshold for the third year at 810,000,000, then the declining block rates are calculated based on the following discounts:

Volume Block	Incremental Discounts
810,000,001 – 850,000,000	\$.025
850,000,001 – 870,000,000	\$.030
870,000,001 – 890,000,000	\$.035
890,000,001 – 910,000,000	\$.040
910,000,001 – 930,000,000	\$.045
930,000,001 -	\$.050

E. Quarterly Threshold Amounts: For the purpose of computing the applicable volume thresholds on a quarterly basis, the annual threshold determined within this section (or as modified within the terms of this Agreement) will be divided into quarters. To ensure a consistent base of mailings throughout the year, at least 18% of the mail will be allocated to each quarter. Due to the seasonality and variations in mailing patterns throughout the year, HSBC has the right to allocate the volume threshold for any given year, during the term of this Agreement, into four quarters, subject to a quarterly minimum of 18% of the determined volume threshold. At least ten business days prior to the start of each year of the Agreement, HSBC shall deliver to the Postal Service an estimated volume allocation by quarter, subject to the minimum of 18% per quarter. These volume thresholds will be used, as outlined in Article III, Paragraph J, Volume Accounting, to determine appropriate quarterly volume discounts, for credit to HSBC.

F. Annual Threshold Adjustment: The initial discount threshold for Year 1 shall be fixed at 615,000,000; for Year 2; at 725,000,000; and for Year 3, at 810,000,000, subject to the following:

   At the end of the first and second year of the agreement, HSBC shall determine whether actual First-Class Mail volumes were more or less than the First Class Mail Before Rates forecast for that year (YR_n). HSBC shall determine (to one decimal point, such as 4.3 percent) the First-Class Mail percentage deviation from forecast (the “FCM percentage surplus” or the “FCM percentage deficit”) by dividing the difference between actual First-Class Mail volumes and First-Class Mail Before Rates forecast volumes for YR_n by total First-Class Mail Before Rates forecast volumes for YR_n. HSBC shall also determine the difference between actual Standard Mail volumes and Standard Mail forecast volumes for YR_n. For purposes of this provision, the Standard Mail forecast for Year 1 is 605 million pieces, for Year 2 is 596 million pieces, and for Year 3 is 586 million pieces. HSBC shall determine the Standard Mail percentage deviation from forecast (the “SM percentage surplus” or the “SM percentage deficit”) by dividing the difference between actual Standard Mail volumes and Standard Mail forecast volumes for YR_n by total Standard Mail forecast volumes for YR_n. The Postal Service shall annually review the determinations made by HSBC pursuant to this section, and shall either concur or take prompt steps towards a mutually agreeable resolution.

1. If the FCM percentage surplus for YR_n is greater than 20% and the SM percentage surplus is greater than 5%, then the discount threshold for $YR_{(n+1)}$ shall be increased by the following percentage: the FCM percentage surplus minus 15%. For example, if the FCM percentage surplus for YR_n were 23.0%, and the SM percentage surplus were more than 5% for YR_n, then the discount threshold for $YR_{(n+1)}$ would be increased by 8.0%. Once the original threshold level is multiplied by the derived percentage adjustment factor, however, the new threshold level so calculated will then be rounded to the nearest whole million pieces.

2. If the FCM percentage deficit for YR_n is greater than 15%, then the discount threshold for $YR_{(n+1)}$ shall be decreased by the following percentage: the FCM percentage deficit minus 15%. For example, if the FCM percentage deficit for YR_n were 18.0%, then the discount threshold for $YR_{(n+1)}$ would be decreased by 3.0%. Once the original threshold level is multiplied by the derived percentage adjustment factor, however, the new threshold level so calculated will then be rounded to the nearest whole million pieces.

3. For any year in which the initial discount threshold is increased or decreased to a new threshold level by the above formulations, the threshold for each successive discount tier will be increased or decreased by the same absolute amount as the initial discount tier (after rounding).

G. Merger, Acquisition or Purchase of a Portfolio: HSBC agrees that the First-Class Mail Volume Threshold (615,000,000 for the initial year, 725,000,000 for the second year, and 810,000,000 for the third year) will be adjusted to the extent that HSBC merges with, acquires an entity, or purchases a portfolio that has annual First-Class Mail volume in excess of 10 million pieces in the year preceding the merger, acquisition or purchase. HSBC must notify the Postal Service of any such merger, acquisition, or purchase within 90 days of the closing of the merger, acquisition, or purchase. The notification must include the name of the merged or acquired entity, or purchased portfolio, the existing number of accounts at the time of merger, acquisition, or purchase, the mail volume of the merged or acquired entity, or purchased portfolio, for the twelve (12) months preceding the merger, acquisition, or purchase, and the permit accounts through which the mail volume was processed. If the merger, acquisition, or purchase results in a material increase as described herein, the First-Class Mail Threshold will be adjusted to add the volume of

First-Class Mail sent by the acquired entity or on behalf of the purchased portfolio during the 12 months preceding the merger, acquisition, or purchase. All threshold adjustments due to mergers or acquisitions shall be made on a quarterly basis in the succeeding quarter immediately following the date that mail volumes due to the merger, acquisition or purchase begin to be mailed through the threshold permit accounts of this NSA. The mail of the merged or acquired entity or purchased portfolio may not be mailed through the threshold permit accounts without prior approval by the Postal Service, which approval shall not be unreasonably upheld. HSBC further agrees that the First-Class Mail Volume Threshold will also be adjusted to the extent that in any year HSBC merges with, acquires multiple entities, or purchases multiple portfolios with combined annual First-Class Mail Volume in excess of 25 million pieces. At the end of any year during the term of this Agreement, HSBC will notify the Postal Service if during that year it has merged with or acquired multiple entities or purchased portfolios with combined annual First-Class Mail volume in excess of 25 million pieces.

H. In order to avoid double counting volumes, any volume used to make adjustments for mergers and acquisitions under Article III, Paragraphs G and I, shall be excluded from calculation of the corresponding annual adjustment under Article III, Paragraph F.

I. Losses and Sales of Portfolios of at Least 10 Million Pieces:
The Parties agree that the First-Class Mail Volume Threshold will be adjusted downward to the extent that HSBC loses or sells a portfolio with annual First-Class Mail volume of at least 10 million pieces. HSBC must notify the Postal Service of any loss or sale within 90 days of the loss or sale. This notification must include the name of the lost or sold portfolio, the number of active accounts in the portfolio, estimated mail volume mailed on behalf of the portfolio for the twelve (12) months preceding the loss or sale, and the permit accounts through which the mail volume was processed. HSBC will make available to the Postal Service auditable records necessary to support this information, and these records must be reconcilable with the Postal Service's mailing records. The First-Class Mail threshold will be adjusted to reduce the threshold by the product of the number of active accounts lost or sold multiplied by 12. All threshold adjustments shall be made on a quarterly basis in the succeeding quarter immediately following the date that mail volumes due to the loss or sale will no longer be mailed through the threshold permit accounts.

J. Volume Accounting:

1. HSBC will provide the Postal Service with the numbers of the permit accounts that will determine HSBC's eligibility for discounts. The accounts may be used to determine the discounts only upon the Postal Service's written acknowledgement. Only First-Class Mail letter mail in

these accounts will be counted toward the thresholds. Separate qualifying permit accounts will be used for operational mail and for solicitation mail. The data in the Postal Service's permit accounts will be used to determine whether the thresholds have been met, and those records must be kept in a form auditable by HSBC.

2. Only First-Class Mail solicitations complying with Postal Service rules and regulations associated with CSR, Option 2, may be mailed through the First-Class Mail solicitation permit account.
3. If HSBC's First-Class Mail volume exceeds the Quarterly Volume Threshold for the applicable quarter, HSBC will be eligible to receive a credit for discounts on subsequent First-Class Mail volume, sent through the designated permit accounts during the remaining portion of that quarter.
4. At the end of each quarter, the Postal Service shall promptly deliver to HSBC its summary of First-Class Mail usage and applicable credit due HSBC. The Postal Service will identify HSBC's quarterly First-Class Mail postage usage and corresponding credit due HSBC. Any applicable credit due HSBC will be realized at the commencement of the subsequent quarter, once volumes have been reconciled. The credit shall be paid to HSBC either through a wire transfer, by check, or by the Postal Service promptly posting an appropriate credit to a separate CAPS account designated by HSBC. At the end of the fourth quarter, all HSBC First-Class Mail volumes and discounts will be reconciled, and the Postal Service will promptly disclose to HSBC whether additional credits are available or whether more discounts have been given than due under the Agreement. If HSBC has received more discounts than due, the Postal Service shall send HSBC an invoice. HSBC shall have 30 days to pay the invoice or to authorize the Postal Service to deduct the amount from the CAPS account designated by HSBC. Any additional amounts owed to HSBC will be credited to the CAPS account designated by HSBC, and the total amount remitted to HSBC by check or wire transfer within ten (10) business days. In any event, the Postal Service shall provide to HSBC the total balance in the designated CAPS account, by wire transfer or check, no later than 20 days after the end of the fourth quarter. HSBC understands that in the normal course of business, the Postal Service occasionally edits permit data after the close of a quarter to reconcile a discrepancy. If such an edit affects the First-Class Mail volume in either the Postal Service's or HSBC's favor, the change will be accounted for under the terms of this Agreement.

K. Only HSBC's First-Class Mail will be mailed through the permit accounts described in Article III, Paragraph J(1) and counted toward the thresholds set forth in this Agreement. HSBC mail is limited to credit and banking services operational mail and solicitations for HSBC's credit and banking products and services. HSBC may not use the threshold permit accounts to mail on behalf of any other company or entity.

IV. Compliance and Other Issues

A. Compliance

1. HSBC will continue to use return addresses with the return addresses listed in Attachment A to this agreement, unless HSBC notifies the Postal Service fifteen (15) days in advance that a different address will be used. Separate return addresses will be used for operational mail and for solicitation mail. HSBC must notify the Postal Service of all return addresses for operational and solicitation mail before use.
2. Upon 5 days written notice, HSBC will permit the Postal Service to select returned First-Class Mail pieces, HSBC will open the mail in the presence of Postal Service employees, HSBC will copy the contents, only after appropriate redaction, and provide a copy to the Postal Service, and HSBC will retain the original pieces, provided that any opening and/or copying will be in accordance with applicable laws, regulations, and HSBC's agreements. The parties agree that only a reasonable number of samples will be inspected, and that HSBC can redact the copied pieces by blacking out all personally identifiable information.
3. HSBC agrees to keep a representative mail piece for each campaign mailed through the solicitation permit accounts. The copy must include the front and back cover and all contents. Included with the copy must be the date of mailing, the amount mailed, and enough information to tie the mailing to specific postage statement(s).
4. HSBC will make necessary records and data available to the Postal Service to facilitate and monitor compliance with this Agreement.

B. Appeals

HSBC may appeal a Postal Service decision regarding: mail counted toward the minimum in Article II, Paragraph D; mail counted toward the thresholds set forth in Article III, Paragraph D; threshold adjustments set forth in Article III, Paragraphs F, G, and I; the volume of mail in the threshold permit accounts set forth Article III, Paragraph J; or the amount of discounts paid set forth in Article III, Paragraph J, by sending a written appeal within 30 days of receipt of notification of the decision to the Rates and Classification Service Center in New York. The decision of the Manager, RCSC, will be final. However, HSBC does not waive any appeal rights provided by the Postal Service regulations. Any decision that is not appealed as prescribed becomes the final Postal Service decision.

This appeal process relates only to the issues identified above that arise as a result of the implementation of this agreement.

C. Effective date

The Agreement is effective on the latest date of signing by both Parties. It shall be implemented on the date set by the Postal Service Board of Governors, after all appropriate regulatory approvals.

D. Regulatory Review

1. In accordance with the Postal Reorganization Act and the Postal Rate Commission's Rules of Practice and Procedure and upon approval of the Postal Service Board of Governors, the Postal Service will file a request with the Postal Rate Commission ("Commission") for recommended changes in rates, fees, and classifications that would allow the Postal Service to implement this agreement. This request will seek to have this agreement reviewed as functionally equivalent, in accordance with 39 C.F.R. § 3001.196, to the agreement that was the subject of the Commission's recommendation and the Governors' decision in Docket No. MC2002-2, Experimental Rate and Service Changes to Implement Negotiated Service Agreement with Capital One Services, Inc.
2. HSBC agrees to file with the Commission its direct case supporting the Postal Service's request on the date the Postal Service files its request. HSBC will file any motions for waiver necessary to support these filings.
3. The Parties agree to provide the other with each full draft of its testimony and accompanying workpapers and library references when available. The Postal Service will approve the final version of these materials.
4. HSBC agrees that its testimony will address, among other issues, the impact or lack thereof of this agreement on its First-Class Mail and Standard Mail volume.
5. Each party agrees to consult with the other on positions to be taken in pleadings prior to filing. HSBC agrees not to take any position in the litigation adverse to those of the Postal Service.
6. Each party agrees to bear its own costs related to the subject matter of this Agreement and its costs of participating in Commission and court proceedings resulting from the Postal Service's request for a recommended decision.
7. Each party agrees to bear its own costs associated with any data collection needs associated with this Agreement.
8. The Postal Service agrees to timely file any documents, studies, or analyses required for compliance with the Postal Rate Commission's Recommended Decision, and HSBC agrees to provide the Postal Service the necessary information for such compliance. The failure of the Postal Service to comply shall be deemed a material breach of this agreement.

E. Term & Implementation Date

Pursuant to the Postal Reorganization Act, and upon approval by the Governors of the Postal Service of the changes in rates, fees, and classification recommended by the Commission, the Board of Governors will set the Implementation Date. The Board of Governors may decide to implement the waiver of the ACS fee up to two months before the discounts and related provisions. It is further agreed that should the Implementation Date fall prior to the commencement of a quarter, then for the period of time between the Implementation Date and the first full quarter, any applicable volume thresholds will be pro-rated as mutually agreed by the Parties, and thereafter the Agreement will continue for a period of three years from the Implementation Date set by the Board of Governors or until (i) the provisions of the Domestic Mail Classification Schedule relative to this Agreement expire or (ii) the Agreement is terminated by one of the Parties pursuant to Article IV, Paragraph F set forth herein. It is further agreed that should the termination date of this Agreement fall prior to the end of a quarter, then for the period of time between the end of the preceding quarter and the termination date, any applicable volume thresholds will be pro-rated as mutually agreed by the Parties.

F. Termination

Each party reserves the right to terminate this Agreement, without penalty (including, but not limited to, the terms of Section II, Paragraph D), under one or more of the following conditions:

1. If the Board of Governors fails to approve the filing of the request with the Commission.
2 If the Commission fails to issue a Recommended Decision based on the agreement.
3. If the Commission adopts a Recommended Decision that deviates from the rates, fees, and classification changes set forth in this agreement.
4. If the Governors of the Postal Service fail to approve a Commission Recommended Decision adopting the rates, fees, and classification changes as set forth in this agreement.
5. If a material change in the Domestic Mail Classification Schedule or the Domestic Mail Manual is implemented that affects the basic structure of this agreement or materially changes the benefits of the arrangement.
6. If, during the litigation before the Commission, HSBC is required to divulge information it deems confidential, and which, in its business judgment, it does not wish to reveal.

Either signatory withdrawing under the terms of this paragraph must provide written notice of withdrawal to the other party within fifteen business days of the occurrence of the specified event giving rise to the right to withdraw.

G. Cancellation

1. During the term of the agreement, the Postal Service may cancel the agreement for the following reasons provided that the Postal Service shall provide written notice to HSBC of HSBC's failure and HSBC shall have failed to cure such failure within sixty (60) days of its receipt of such notice:
    a. A material failure by HSBC to provide accurate data.
    b. A material failure by HSBC to present properly prepared and paid mailings.
    c. HSBC's failure to comply with a material term of this Agreement.
    d. HSBC's lack of use of the Agreement.
2. During the term of the agreement, HSBC may cancel the agreement without cause by providing thirty business days’ advance written notice provided that it must still comply with Section II, paragraph D. If HSBC already has complied with Section II, paragraph D, then HSBC may cancel without cause or penalty and shall specifically have no liability under Section II, Paragraph D of this Agreement.

H. Inapplicability of Contract Disputes Act:

The Contract Disputes Act, 41 U.S.C. 601 et seq., shall not be applicable to any dispute arising from this negotiated service agreement, any of its terms and conditions, its approval, administration, or implementation. However, this waiver shall not apply to any other contract to which either party is a party or is privy to a party.

V. Public Communications

The form, substance, and timing of any press release or other public disclosure of matters related to this Agreement shall be mutually agreed to by HSBC and the Postal Service in writing which consent shall not be unreasonably withheld, except to the extent of disclosure which HSBC or the Postal Service is required by law to make, in which instance the non-disclosing Party shall be advised and the Parties shall use their reasonable efforts to cause a mutually agreeable disclosure to be issued.

VI. Assignability

HSBC may assign its rights and responsibilities under this agreement to an entity that it merges with or that acquires HSBC at any time before the expiration date of this agreement.

VII. Amendments

This Agreement shall not be amended except expressly, in writing, by authorized representatives of the Parties.

VIII. HSBC's U.S. Operations

All HSBC obligations and mail volumes in this agreement are intended to apply only to the subsidiaries of HSBC North America Holdings Inc. operating in the United States.

IX. Notices

Service of all notices under this Agreement shall be in writing and sent by either U.S. Certified Mail, return receipt requested, postage paid, addressed to the Party to be served notice, or by nationally recognized overnight mail service, at the following addresses. All such notices and communications shall be effective upon receipt.

HSBC North America Holdings Inc.
c/o HSBC Technology and Services (USA) Inc.
Attention: Chief Financial Officer
1501 Feehanville Drive
Mount Prospect, IL 60056

with a copy to:

HSBC North America Holdings Inc.
c/o HSBC Technology and Services (USA) Inc.
Attention: General Counsel
2700 Sanders Road
Prospect Heights, IL 60070

United States Postal Service
475 L'Enfant Plaza, SW, Room 5014
Washington, DC 20260-5014
Attention: Stephen Kearney
Vice President, Pricing and Classification

United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-1100
Attention: Managing Counsel, Legal Policy & Ratemaking

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first written above.

UNITED STATES POSTAL SERVICE	HSBC NORTH AMERICA HOLDINGS INC
By:	By:
Printed Name: Stephen M. Kearney	Printed Name: Andrew Armishaw
Title: VP, Pricing & Classification	Title: ~~Chief Information Officer~~ Authorized Representative HSBC Technology and Services (USA), Inc.
Date: February 11, 2005	Date: 2/15/05

Attachment A
Article IV, Paragraph A(1)

Return Addresses

City	State
Brandon	FL
Bridgewater	NJ
Buffalo	NY
Carmel	IN
Chesapeake	VA
Columbus	OH
Downey	CA
Lewisville	TX
Mount Prospect	IL
Prospect Heights	IL
Rockaway	NJ
San Diego	CA
Salinas	CA
Wilmington	DE
Wooddale	IL