

L. Johnson, Office of Associate Chief Counsel (Corporate). However, other personnel from the IRS and Treasury participated in their development.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by removing the entry for “Section 1.1502–20T(i)” and adding an entry in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.1502–20 also issued under the authority of 26 U.S.C. 337(d) and 1502. * * *

Par. 2. In § 1.337(d)–2, paragraphs (a)(4) and (b)(4) are added to read as follows:

§ 1.337(d)–2 Loss limitation window period.

[The text of this proposed section is the same as the text of § 1.337(d)–2T published elsewhere in this issue of the **Federal Register**].

Par. 3. Section 1.1502–20 is amended by revising paragraphs (i)(3)(v) and (i)(4) to read as follows:

§ 1.1502–20 Disposition or deconsolidation of subsidiary stock.

[The text of this proposed section is the same as the text of § 1.1502–20T published elsewhere in this issue of the **Federal Register**].

Robert E. Wenzel,

Deputy Commissioner of Internal Revenue.
[FR Doc. 02–13575 Filed 5–30–02; 8:45 am]

BILLING CODE 4830–01–P

POSTAL SERVICE

39 CFR Part 111

Proposed Changes to the Move Update and Address Matching Requirements

AGENCY: Postal Service.

ACTION: Advance notice of proposed rulemaking and request for comment.

SUMMARY: The Postal Service requests comments from the mailing industry on several proposals to reduce the volume of undeliverable-as-addressed (UAA) mail. The Postal Service intends to extend the Move Update requirement for presorted rate mailings beyond First-Class Mail to also include Periodicals, Standard Mail, and Package Services; to decrease from 180 days to 90 days the window a mailer has to process

addresses through a USPS-approved Move Update process prior to the mailing date; and to remove manual notifications from ancillary service endorsements as a stand-alone option to satisfy the Move Update requirement. Also being considered is a requirement for more frequent use of address matching software and a requirement for that software to utilize more current address matching directories. The Postal Service is not proposing any immediate changes to the Domestic Mail Manual (DMM) or the elimination of manual ancillary service endorsements for single-piece rated mail. The Postal Service will give due notice of these changes with an intended implementation date of no sooner than 18 months from the publication of this notice.

DATES: Comments must be received on or before August 29, 2002.

ADDRESSES: Written comments should be delivered to the Office of Product Management—Addressing, National Customer Support Center, United States Postal Service, 6060 Primacy Pkwy, Ste. 201, Memphis, TN 38188–0001. Comments may be transmitted via facsimile to 901–821–6206 or via e-mail to chunt1@email.usps.gov. Copies of all written comments will be available for inspection and photocopying at USPS Headquarters Library, 475 L’Enfant Plaza SW, 11th Floor N, Washington DC 20260–1450 between 9 a.m. and 4 p.m., Monday through Friday.

FOR FURTHER INFORMATION CONTACT: Wayne Orbke, 901–681–4658; or Charles B. Hunt, 901–681–4651.

SUPPLEMENTARY INFORMATION: On October 15, 2001, the Mailing Industry Task Force, a joint workgroup of mailing industry and Postal Service leaders, released its findings and recommendations in the report Seizing Opportunity (this report can be viewed at www.usps.com/strategicdirection/mitf.htm). To help drive costs out of the postal delivery system and to reduce the volume of UAA mail, the Task Force recommended that mailer requirements be revised to facilitate more frequent use of Move Update and address matching software.

It is the intent of the Postal Service to implement the proposals contained in this notice as part of the Product Redesign effort that is currently under way. Product Redesign is a joint mailing industry and Postal Service initiative to evaluate and implement ideas that improve the overall value of the mail. Product Redesign has also focused on these same address quality initiatives with a goal of creating incentives for mailers to take steps to reduce the costs

associated with UAA mail. The value of these proposals to both the mailing industry and the Postal Service is clearly recognized. In addition to the direct UAA mail impact on postage rates, the mailing industry incurs substantial indirect costs associated with wasted mail production, additional labor required to handle manual corrections, and lost business opportunities when their strategic messages cannot be delivered. Implementation of these “Best Practices” addressing proposals will benefit both the mailing industry and the Postal Service by substantially mitigating the impact of UAA mail and enhancing the value and viability of the mail as a communications medium of choice.

(1) Move Update Requirement for All Classes of Mail

UAA mail is a persistent problem for both the mailing industry and the Postal Service. In testimony presented before the Postal Rate Commission during omnibus rate case Docket No. R–2001–1, USPS costs associated with UAA mail in fiscal year 2000 were \$1.8 billion. UAA volume for that year totaled 5.7 billion pieces. By comparison, a 1998 Postal Service study of the UAA problem commissioned through Price Waterhouse revealed UAA costs for fiscal year 1998 were \$1.5 billion and its associated volume was 5.4 billion pieces. Overall UAA volume has grown by 5.26% in two years.

When UAA volume was tracked through the Computerized Forwarding System (CFS) sites by class of mail, it was noted that First-Class Mail UAA volume actually decreased from 1998 to 2000 by 0.29%, while UAA volume for all other classes increased. First-Class Mail is the only class currently with a Move Update requirement for presort and automation postage rates. Clearly the Move Update requirement is working to contain the growth of UAA within First-Class Mail. The 1998 Price Waterhouse study also revealed that if it were not for the change of address programs, such as National Change of Address (NCOA), Address Change Service (ACS), and FASTforward®, UAA costs would have been over \$3 billion.

If the Move Update requirement was expanded to other classes of mail, the Postal Service and the mailing industry could realize even greater cost savings. These savings may help to contribute to rate stabilization and improved delivery service.

(2) Frequency of Use of Move Update Processing

Currently the DMM requires that addresses on all Presorted and automation rate First-Class Mail be updated within 180 days before the mailing date using an USPS-approved method (i.e., NCOA, ACS, FASTforward®, an ancillary service endorsement, or other methods approved by the National Customer Support Center). It is proposed that this 180-day window be reduced to 90 days and linked to the previous proposal of expanding the Move Update requirement to the other classes of mail.

Approximately 17% of all Americans move every year. In Fiscal Year 2000, families and individuals filed over 41 million change-of-address orders. In the same year, there were 2.6 million business filings. With such a dynamic environment, managing addresses affected by customer moves is challenging. The monthly rate of deterioration of address currency, due to family and individual moves alone, is approximately 1.4%. In 6 months (the current Move Update requirement), about 8.4% of addresses in the mailer's files has the potential to be inaccurate. To minimize this natural deterioration, the Postal Service has recommended, since the inception of the Move Update requirement in July 1997, that Move Update processing be completed as close to the mailing date as possible. While this is desirable, the Postal Service understands that it may not always be possible for the mailer. However, it is in the best interests of both the mailing industry and the Postal Service to require Move Update processing at most 90 days before the mailing date. Reducing by one-half the natural deterioration of address currency can be expected to significantly decrease UAA volume and the costs associated with the re-handling and redirection of mail.

(3) Removal of Manual Hardcopy Notifications as a Move Update Option

The Postal Service is proposing the elimination of manual notifications resulting from ancillary service endorsements, as a method to meet the Move Update requirement. There are currently six USPS-approved methods to meet the Move Update requirement. They are: (1) NCOA, (2) FASTforward®, (3) ACS, (4) an appropriate ancillary service endorsement, (5) the NCSC-approved alternate method for mailers that have statutory or regulatory restrictions that prohibit changing customer addresses without direct notification from the addressee, and (6)

the NCSC-approved alternative for mailers' processes that effectively produces a Move Update accuracy of at least 99% as measured against the Postal Service's Change-of-Address (COA) systems.

NCOA and FASTforward® are processes that occur before or at the time of mailing and are known as pre-mailing methods. ACS and use of ancillary service endorsements are Move Update methods that are post-mailing in nature. The two alternative methods may be pre-or post-mailing processes. With the exception of ancillary service endorsements that require manually produced address notices, all of the current options would remain available to mailers for Move Update qualification.

Providing mailers with manually prepared address notifications is the least effective and most costly Move Update method for the Postal Service requiring high cost carrier and clerk labor. For mailers, the higher fee per notice (currently \$0.60 versus \$0.20 for ACS electronic notifications) must be added to their high labor costs associated with manually processing and incorporating the COA information into their address files. These costs often far exceed the fee for the address correction notice. This will be further impacted when the manual notification fee increases from \$0.60 to \$0.70 when the rate case Docket No. R2001-1 is implemented. The ACS fee will remain at \$0.20.

When one considers the impact on both the Postal Service and the mailing industry of these inherent problems related to cost, quality, and timeliness of manual updates, it does not make sense to continue to allow manual address notifications as a method for obtaining automation and presorted rate discounts. Another point to consider is the fact that many of these endorsements require the Postal Service to return the mailpiece to the mailer at a significant cost. There is a viable cost-effective replacement available for mailers who cannot process electronic address corrections and must use hardcopy. This replacement method is the electronic ACS hardcopy option that provides a computer-formatted, high quality printout in a timely manner at a reasonable cost to the Postal Service and the mailer. The current fee is \$0.20, the same as the cost for ACS electronic notification. No additional carrier or clerk labor is required to prepare the ACS channel hardcopy address corrections. This option requires minimal initial cost for a mailer to implement.

(4) Frequency of Use of Address Matching Software

Currently the DMM requires that addresses on all non-carrier route automation rate mailings (First-Class Mail, Periodicals, and Standard Mail) must be ZIP+4 coded within 180 days before the mailing date. The mailer must use current Coding Accuracy Support System (CASS)-certified address matching software and the current USPS Address Information System (AIS) directory. It is proposed that this 180-day window be reduced to 90 days. Starting June 30, 2002 (R2001-1), the Postal Service will require a delivery point barcode (DPBC) on all Enhanced Carrier Route (ECR) high density and saturation rate pieces claimed at letter rates, in addition to the carrier route coding. Carrier route coding is already required within 90-days of mailing.

Today, the Postal Service is delivering mail to over 137 million delivery points. Each year, on average, 2.8 million new delivery points are added and 1.1 million are deleted, and approximately 6.5 million change transactions are processed (changes to the ZIP+4 code, carrier route number, or address elements). The total average number of changes to delivery points and ZIP+4 range-based records is 10.4 million per year. These address element and Postal Code changes that affect mail deliverability are distinct from, and in addition to, the COA orders filed each year by families, individuals, and businesses.

Edits to the Address Management System (AMS) result in a 26.6% annual change rate, which translates to 2.22% of the records changed per month. It is a daunting challenge to keep addresses current with the proper ZIP+4 codes and carrier route number in such a dynamic environment.

By going from a 180-day to a 90-day matching and coding requirement to obtain automation rate discounts, we would potentially reduce by half (from approximately 13.3% to 6.65%) the number of mailpieces containing inaccurate address coding.

(5) Address Matching Directory Update Frequency

When processing address files through CASS-certified address matching software, the system must use the "current USPS database/directory" to obtain the correct ZIP+4 codes. The update standards in DMM A950.3.0 define a "current USPS database" by the following matrix:

CURRENT DMM STANDARDS

File Release Date Use of file released on ...	Required Use Date Must begin no later than ...	Last Permissible Use Date And must end no later than ...
February 15	April 1	May 31.
April 15	June 1	July 31.
June 15	August 1	September 30.
August 15	October 1	November 30.
October 15 ...	December 1	January 31.
December 15	February 1 ...	March 31.

New AIS product releases must be included in address matching systems no later than 45 days after the release date. Mailers are expected to update their systems with the latest data files as soon as practicable. This provides mailers a maximum of 105 days for product release use (45 days for installation and testing, and 60 days of use thereafter) as noted in the above table. This built-in overlap in dates for product use allows mailers adequate time to install the new data files and test their systems.

The Postal Service is proposing the reduction of these timeframes for permissible use of any product release from 60 days to 30 days. The 45-day allowance for installation and testing remains unchanged. As a result, mailers would have a maximum of 75 days for AIS product release use (45 days for installation and testing, and 30 days of use thereafter). Therefore, the new USPS database/directory product cycle would be as follows:

PROPOSED DMM STANDARDS

File Release Date Use of file released on ...	Required Use Date Must begin no later than ...	Last Permissible Use Date And must end no later than ...
January 15 ...	March 1	March 31.
February 15	April 1	April 30.
March 15	May 1	May 31.
April 15	June 1	June 30.
May 15	July 1	July 31.
June 15	August 1	August 31.
July 15	September 1	September 30.
August 15	October 1	October 31.
September 15.	November 1	November 30.
October 15 ...	December 1	December 31.
November 15	January 1	January 31.
December 15	February 1 ...	February 28.

As stated in the previous section, over 26.6% of the Postal Service's AMS database experiences some change over the course of a year. The required use of monthly instead of bi-monthly directories may help to further reduce UAA mail caused by inaccurate address coding by another 2.22%.

This proposal to use monthly directories coupled with the proposal for more frequent address coding are inextricably linked and must be considered as an integrated two-part solution to reduce UAA mail that results from poor physical address quality. More frequent coding against old database directories or less frequent coding against newer database directories adds no real value. It is the combination of the two that is expected

to provide an increase in the accuracy of address information on mailpieces.

Consider an illustrative automation rate mailing submitted on November 30 as the most extreme example of the results of using current standards. The addresses within the mailing were ZIP+4 coded on the last permissible day of May 31 using the oldest "current" ZIP+4 file of February 15. The AMS data source that was used to process the mailer's addresses is over nine months old. When factored against the 2.22% monthly AMS change rate, approximately 19.98% (9 months x 2.22%) of the mailpieces within the mailing may potentially contain the wrong ZIP+4 code and therefore the wrong POSTNET barcode.

Under this proposal, using the same extreme example, the automation rate mailing is submitted on November 30. The addresses within the mailing were ZIP+4 coded on the last permissible day that is now August 31 using the oldest "current" ZIP+4 file of June 15. The AMS data source that was used to process the mailer's addresses is now only five months old. Again when factored against the 2.22% monthly AMS change rate, only 11.1% (5 months x 2.22%) of the mailpieces may potentially contain the wrong ZIP+4 code.

	Current Standards	Proposed Standards
Date of Mailing	November 30	November 30.
Oldest Permissible Date Address List was Matched & Coded	May 31	August 31.
Oldest Date of Valid AIS Directory Used for Matching & Coding	February 15	June 15.
Age of Addressing Data Used for Matching & Coding	9 Months	5 Months.
Percentage of Addressing File Containing Potentially Incorrect ZIP+4 codes	19.98%	11.1%.

The proposed standards would significantly reduce the number of mailpieces with potentially inaccurate ZIP+4 codes that would have to be redirected. This combined approach should decrease the volume of UAA mail within the postal delivery system and thereby reduce the total costs associated with UAA mail.

For the reasons stated above, the Postal Service seeks comments on the impact of strengthening address quality

standards in the mutual pursuit of reducing UAA costs and enhancing delivery service standards. In particular, the Postal Service seeks comments on the intended implementation time of not less than 18 months; the extension of the Move Update requirement for presorted rate mailings to Periodicals, Standard Mail, and Package Services mailers; the impact to mailers who currently use manual ancillary service endorsements as an option to satisfy the

Move Update requirement; and the impact of more frequent use of Move Update and address matching software.

Authority: 5 U.S.C. 552(a); 39 U.S.C. 101, 401, 403, 404, 414, 3001-3011, 3201-3219, 3403-3406, 3621, 3626, 5001.

Stanley F. Mires,

Chief Counsel, Legislative.

[FR Doc. 02-13712 Filed 5-30-02; 8:45 am]

BILLING CODE 7710-12-P