

The Articled....

Because u'r Altitude is determined by u'r Attitude

Vol 1

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Issue 1

Happy B'day!!!!



15 yrs & Still growing from strength to strength

Warm Welcome

As the saying goes 'If your actions inspire others to dream more, learn more, do more and become more, you are a leader' is apt for Mr. Sunil D Surana who is the new addition to the esteemed club of Directors of DNS Consulting

A fellow member of ICAI, he has got great expertise in the field of Direct Taxes and Tax Planning. He is also a consultant in the field of finance, Capital Restructuring and Business Reorganization.

Over the years of his association with D & S, he has risen to be one of the pillars of strength for the firm. On a lighter note, a man who is as cool as cucumber unmindful of the soaring temperatures inside or outside the firm. We look forward to his continued leadership to take D & S to greater heights. Welcome Sir!!!!

Editorial

"Time is always characterized by the wings of change". Change carries itself in various forms, like every autumn is followed by a spring, bringing new life after withering. Like after every dark night comes a 'ray of light', bringing new hope & entailing a new beginning. With this backdrop we have immense pleasure in introducing the maiden issue of our newsletter --

"The Articled".

We hope to get your precious support in making this small bud blossom into a beautiful flower.

Nitty-gritty of Service Tax

Service Tax is an indirect levy of tax. Chapter V of the Finance Act, 1994 was inserted in order to tax Services in India. Today nearly 107 services are taxable out of which 7 are the additions in the recent budget. Another 44 services are in the streamline of being taxed in the near future.

Any service can be taxed only once even though it can be categorized in two or more categories. Thus classification of Service will gain importance. The principle to be followed is stated below

1	Primary	Specific description will prevail over the general description.
2	Secondary	Classification based on the essential character
3	Residuary	Classification under the sub-clause which occurs first among the sub clauses of Section 65 of the Finance Act

and to be preferred in the order in which it is numbered

In the recent budget a new entry Works Contract Service is brought into Service tax net which includes (1) construction of building/civil structure for the purpose of commerce or industry and (2) construction of residential complex. These two services were liable to service tax even before 01.04.2007. There being a specific classification for both these service they will prevail over the general entry being works contract.

When to pay service tax i.e., when does the taxable event arise?

Section 67 of the Act – The gross amount charged for the taxable service shall include any

1	Advance towards provision of service	Advances forms part of the gross amount charged if they are received after such service is notified in the law.
2	Advance payment is received for a service which is not taxable at the time of receipt but becomes taxable during the course of service	Apportion appropriately between the two periods and that part of service provided on or after the notification date is liable for tax
3	Advances received after the Service is notified to be taxable	Chargeable as soon as the advances are received in respect of services provided because the gross amount charged as per 67 also includes amount received towards the taxable service before the provision of service
4	Advances received in case of continuous provision of services	Service tax is payable periodically from time to time as and when the payment is due or received

amount received towards the taxable service before, during or after provision of such service

Who has to pay the Service Tax?

Sl. No	Classification of Service	
1	Insurance Services Auxiliary	Even insurance agent is providing service, person carrying business or life insurance business is liable to pay service tax
2	Goods transport agency (GTA)	Consignor or Consignee are liable to pay the service tax if they are specified persons as defined in law and if GTA has not paid tax
3	Mutual Fund Distributor (Business Services) Auxiliary	If an agent is appointed by the Mutual fund or asset management company (AMC) on a commission basis then Mutual fund or AMC will be liable to tax.
4	Sponsorship Services	The body corporate or firm receiving sponsorship services should pay Service tax
5	Import of Services	Recipient of Service (Importer) has to pay service tax subject to certain conditions
6	All other Services	Provider of Services

Other points:

1. Provisions in the Act are the main legislature. Central Government cannot issue any circular or letter giving instructions or clarifications contradicting the provisions of the law or enlarging the scope.

Rate of Service Tax	
Service Tax	12% of taxable value of service
Education Cess	0.24% of taxable value of service
Secondary and Higher Education Cess (w.e.f 12.05.2007)	0.12% of taxable value of service
Due date for payment	
Individual, Proprietorship Concern and Partnership Firms	5 th day from the end of relevant quarter Eg: For April to June (Quarter) by 5 th of July
Other than the above	5 th day from the end of the relevant month
For the quarter/month ending 31 st March	31 st March is the due date.

2. Service tax is not leviable when:

- the services are provided free of cost
- the services are provided by one unit to another unit of the same entity as there is no valuable consideration.

- Priya Ranjani, Harish Parmar, Sumana

Unlocking the Budget Code

“It is my privilege to present the Budget for 2007-08” were the words of our honourable finance minister Shri P.Chidambaram as he set the ball rolling & opened the yearly mystery package, generating a wave of curiosity across the nation as to what the budget is going to unfold. The Budget every year, comes with an enigma attached to it & umpteen number of predictions & analysis welcome its arrival. At last, the year long wait was over & as the ball rolled, it entered into the “Direct Taxes” segment raising millions of eyebrows on its way. Amendments in Direct Taxes is a major arrow that is released by the budget from its armour, which has a deep impact on the income & investment patterns. Below mentioned are some of the significant amendments, which might be taken a note of: -



- ❖ The basic exemption limits for Individuals, HUFs and AOPs hiked by Rs10,000.
- ❖ An additional cess of 1% has been brought into picture for secondary and higher education, resulting in an increase in the education cess from 2% to 3%.
- ❖ The definition of “Capital Asset” is now broadened to include works of art viz-archaeological collections, drawings, paintings, sculptures, etc thereby seeking to tax, the gains arising on the transfer of such Personal Effects.
- ❖ Income in the nature of interest, royalty or technical services would be deemed to accrue or arise in India, and included in the income of a Non Resident, whether or not such non-resident has a residence, place of business or business connection in India. (Section 9)
- ❖ ‘Minimum Alternate Tax’ extended to FTZ, STPI, EOU and EHTP units.
- ❖ Disallowance u/s 40A (3) is raised from 20% to 100% of the expenditure.
- ❖ Rate of Dividend Distribution Tax enhanced from 12.5% to 15% in case of domestic company and 20% in case of Money Market or Liquid Funds.
- ❖ Weighted deduction of 150% on Scientific Research and Development incurred by specified industries extended upto 31/3/2012.
- ❖ Deduction u/s 80E, which was earlier allowed only to an Individual for the interest on loan taken for his/her higher education, is now extended to interest on such loan taken for a relative, being spouse or children.
- ❖ The deduction U/s 80D towards Mediclaim Insurance Premium paid by an individual or HUF is hiked from Rs.10,000 to Rs. 15,000. Senior citizens are entitled to Rs.20,000/- deduction.
- ❖ Time limit u/s 80IA and 80IB for commencement of Project extended from 31/3/2007 to 31/3/2008 in case of Power Generating Plants and in the case of units situated in Jammu & Kashmir, it is extended to 31/3/2012.
- ❖ Fringe Benefit Tax is sought to be charged on specified securities including ESOPS / Sweat Equity Shares allotted to employees, on the date of vesting of the option.

Some of the relevant amendments are explained in detail as below –

Threshold limits

The threshold limit of exemption in the case of Individuals, HUFs and AOPs is increased by Rs.10,000, however the basic rate schedule of personal income tax remains unchanged. Consequently, the revised threshold limit for Individuals, HUFs and AOPs would be Rs.1,10,000/- and that for women assessee and senior citizen would be Rs.1,45,000 and Rs.1,95,000/- respectively. However, the increase in the basic exemption of Rs.10,000 acts as a double edged sword, since after a certain limit its benefit is offset by way of an additional 1% levy in the form of secondary and higher education cess.

For eg: Those earning more than 5.1 lakhs will be hit by this amendment, for instance an individual earning Rs.10 lakhs would have paid Rs.2,55,000 in the assessment year 07-08, whereas he will end up paying Rs.1,470 more i.e. Rs.2,56,470 in the assessment year 08-09.

Surcharge of 10% will apply to companies & firms if their total Income Exceeds 1 Crore. It remains the same for all other assesseees.

Amendment in taxation on 'source' basis

Prior to the amendment to Sec 9, business income of a foreign company or other non-resident person is chargeable to tax to the extent it accrues or arises through a business connection in India or from any asset or source of income located in India. The effect of the amendment is that, where income in the nature of interest, royalty and fees for technical services received by a non-resident is also taxable in India whether or not the non-resident has a residence or place of business or business connection in India. Provided that the capital funds borrowed on which such interest is paid, patents, inventions, model, design, secret formula or trade mark or similar property on which royalty is paid and technical services rendered are used for business and profession carried on in India

Fringe Benefit Tax

Employee stock option plans (ESOPs)/Sweat Equity shares will now be brought under the purview of the fringe benefit tax (FBT) and hence taxed @ 33.99 % on the entire difference between

the fair market value on the date of vesting of options and the exercise price of options minus the amount recovered from the employee. FBT on ESOPs will be calculated at the time of vesting the options to the employees and not at the time of allotment. The exercise value of the ESOP is the price at which the options, granted to the employees, are converted into shares. Wherein the 'fair market value' is still to be decided by the government, it could be calculated based on the Black Scholes Method.

Expenditure incurred on the display of products and distribution of free samples is removed from the purview of FBT.

The provisions relating to the payment of advance FBT will be in line with the provisions for payment of advance income tax.

Disallowance U/s. 40A(3)

Cash payments other than by way of account payee cheques or account payee bank drafts exceeding Rs. 20,000 are now disallowed at 100% as compared to 20% in the earlier years. Where such payment relates to prior years liability, which has been allowed as a deduction in those previous years, then it will be treated as income in the year of payment.

Budgets in the recent past have been conducive to economic growth & have opened up the Indian economy thereby unleashing the Indian Entrepreneur. They have propelled the Indian corporates to take huge strides & unfurl their flags on foreign shores & hence establishing the country on an international scene. Though the Budget this year tinkered around with some rates here & there, allowing & withdrawing few exemptions, it has not really come up with something strikingly positive, not doing any harm as such at the same time. To sum it up in short it was a "Stay Happy" kind of a Budget & the focus now shifts to "Budget 2008-09".

Quick Bites:

The CBDT has come out with new income tax return forms for the various categories of assesseees. For further details log on to <http://incometaxindia.gov.in/>

- Mithila, Mridula, Soumitra,
Chetan, Udaya

Accounting for Employee Stock Option Plan [ESOP]

Securities and Exchange Board of India issued ESOP guidelines in 1999. The idea behind this was to reward and motivate employees for their commitment and hard work. SEBI defines employee stock options as “option given to the whole-time directors, officers or employees of a company which gives such Directors, officers or employees, the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a predetermined price”.

Before going into the details of ESOP accounting let us understand a few terms.

Vesting means the process by which the employee gets the right to apply for and be issued Shares of the company under the options granted to him.

Vesting period means the period over which the vesting of the options of the employee Takes place

Exercise period means the time period after vesting within which the employee should Exercise his right to buy the shares by payment of the option price on the options vested in Him. If the exercise period lapses the vested option lapses and no right shall accrue to the Employee thereafter.

The act of exercise implies an application being made by the employee to the company to have the options vested in him issued as shares upon payment of the option price.

Exercise can take place as specified after vesting The trust route is often adopted to route the ESOS scheme. It works like this: a company creates a trust for the employees and the trust receives its stock either by fresh allotment or by purchase from shareholders or the owner may sell shares of his holding to the trust. The trust obtains its finds through loans and allots shares to employees on exercise of their right in exchange for cash and repays its loans.

Applicability

These Guidelines applies to any company whose shares are listed on any stock exchange in India and came into force with immediate effect from 19th of June 1999. The stock exchanges were advised that the shares issued pursuant to ESOP would be eligible for listing only if such instruments were in accordance with these Guidelines.

Accounting Policies

In respect of options granted during any Accounting period, the Accounting value of the options shall be treated as another form of employee compensation in the financial statements of the company. The Accounting value of options shall be equal to the maximum of:

a) The aggregate over all employee stock options granted during any Accounting period of the excess of the fair value of the option over the specified

percentage of the market value of the share on the date of grant of the option; or

b) Excess of the aggregate of the option discounts on all employee stock options granted during any Accounting period over 20% of the total employee compensation as reported in the profit and loss account of that period.

c) Zero.

For this purpose:

1. Fair value means the option discount, or, if the company so chooses, the value of the option using the Black Scholes formula or other similar valuation method.

2. Option discount means the excess of the market price of the share at the time of grant of the option over the exercise price of the option (including up-front payment if any)

3. Specified percentage means 25% in case of options granted within 12 months of the effective date, 20% in case of options granted during the 13 to 24 months after the effective date, and 15% in case of options granted after 24 months of the effective date. Effective date is the date on which these guidelines come into effect.

Where the Accounting value is accounted for as employee compensation in accordance with the above stated, the amount should be amortized on a straight-line basis over the vesting period. When an unvested employee stock option lapses by virtue of the employee not conforming to the vesting conditions after the Accounting value of the option has already been accounted for as employee compensation, this Accounting treatment shall be reversed by a credit to employee compensation expense equal to the amortized portion of the Accounting value of the lapsed options and a credit to deferred employee compensation expense equal to the unamortized portion.

When a vested employee stock option lapses on expiry of the exercise period, after the Accounting value of the option has already been accounted for as employee compensation, this Accounting treatment shall be reversed by a credit to employee compensation expense. The Accounting treatment prescribed above can be illustrated by the following numerical example.

Suppose a company grants 500 options on 1/4/1999 at Rs 40 when the market price is Rs 160, the vesting period is two and a half years, the maximum exercise period is one year and the total employee compensation for the year 1999-2000 is Rs 900,000. Also supposed that 150 unvested options lapse on 1/5/2001, 300 options are exercised on 30/6/2002 and 50 vested options lapse at the end of the exercise period. The Accounting value of the option being the maximum of:

a) $500 \times [(160-40) - 25\% \times 160] = 500 \times [120 - 40] = 500 \times 80 = 40,000$

b) $500 \times (160-40) - 10\% \times 900,000 = 60,000 - 90,000 = -30,000$

c) Zero

-that is equal to Rs 40,000.

The Accounting entries would be as follows:

1/4/1999	Deferred Employee Compensation Expense Employee Stock Options Outstanding (Grant of 500 options at an accounting value of Rs 80 each)	40,000	40,000
31/3/2000	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	16,000	16,000
31/3/2001	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	16,000	16,000
1/5/2001	Employee Stock Options Outstanding Employee Compensation Expense Deferred Employee Compensation Expense (Reversal of compensation accounting on lapse of 150 unvested options)	12,000	9,600 2,400
31/3/2002	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	5,600	5,600
30/6/2002	Cash Employee Stock Options Outstanding Paid Up Equity Capital Share Premium Account (Exercise of 300 options at an exercise price of Rs 40 each and an accounting value of Rs 80 each)	12,000 24,000	3,000 33,000
1/10/2002	Employee Stock Options Outstanding Employee Compensation Expense (Reversal of compensation accounting on lapse of 50 vested options at end of exercise period)	4,000	4,000

- d) Options vested
- e) Options exercised
- f) Options forfeited
- g) Extinguishment or modification of options
- h) Money realised by exercise of options
- i) Total number of options in force
- j) Employee wise details of options granted to
 - i) Senior managerial personnel
 - ? ii) any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year.
- k) Diluted Earnings Per Share (EPS) calculated in accordance with International Accounting Standard (IAS)

In today's world ESOPs have been increasingly used

as a motivating weapon by the management to retain its most efficient employees. Employees of blue chip companies like Infosys, Wipro, ITC and others become millionaires overnight. But the tool meant for rewarding employees commitment is being misused by few senior managers to serve their self-interest by manipulating the market price. Some investors are unhappy with the scheme as it dilutes their level of participation in company's affairs. Also the very purpose of ESOPs will get defeated if the employees sell their shares in the market. The scheme also has an uncertainty hidden due to the fluctuating stock prices. Despite the disadvantages ESOP's is still a popular tool to attract and retain the best talent and hence the management must draw a scheme suiting the employees' expectations and must study the dynamic changes in stock market to ensure its success.

- Amarnath, Pavitra, Deepti Mitesh, Rayan

Employee stock option outstanding will appear in the Balance Sheet as part of net worth or share holder's equity. Deferred employee compensation will appear in the Balance Sheet as a negative item as part of net worth or share holders equity.

Disclosure in Directors' Report

The Board of Directors shall disclose either in the Directors Report or in the annexure to the Director's Report, the following details of the Stock option plan:

- a) The total number of shares covered by the Employee Stock Option scheme as approved by the shareholders
- b) The Pricing formula
- c) Options granted

Tid Bits

1. With 800 movies per year, India's film industry overshadows Hollywood.
2. India consumes a fifth of the worlds gold output.
3. Indian railways is the largest employer in the world, with a staff of 1.6 million people.
4. There are 8,500 India restaurants in the U.K. 15% of the country's total dining-out establishments.
5. According to the Forbes magazine Sanskrit is the most suitable language for computer software.

6. In areas like Raichur, buffaloes are coated with Godrej's black hair Dye to make them more presentable.
7. In parts of Punjab washing machines are used to make lassi while old Godrej refrigerators are use as cupboards.
8. In Madhya Pradesh farmers rub iodex on the skins of their cattle after a hard day's work.
9. A study commissioned by Gillette India shows that Indian men spend, on average, 20 minutes in front of a mirror every morning against 18 minutes spent by women.

- Rayan Sequeira **6**

Auditors of public - limited listed companies and public sector units need to possess a peer review compliance certificate from the ICAI, which mandated it after a recommendation from the SEBI.

AUDITOR'S AUDIT – A PEER REVIEW

Of 3,000 CA professionals/firms, 1,200 have already been selected for peer review and 800 have already been scrutinized

In the Parliament there is an opposition party to ensure that the government carries out its functions in concurrence with the guidelines of the constitution. The opposition examines the endeavors of the government to make certain that they are designed to best suit the nation's interest. **Politics featuring in peer review article?** For the reason that a relation can be drawn to the oppositions review of government's function to the peer review mechanism introduced by the ICAI in Y2K2.

“Peer” means a person of similar standing i.e., of the same profession and “review” means examination. It's like Narayan Murthy of Infy reviewing business strategies and policies of Azim Premji of Wipro. Sounds Interesting. Same is in politics. Lets put on our thinking caps and know more about “Peer Review”.

Peer is an acronym for Joint Legislative Committee on **Performance Evaluation and Expenditure Review**.

The objective of peer review is to ensure that the CA's comply with the technical standards laid down by the ICAI and have in place a proper system (including documentation systems) for maintaining the quality of the attestation services they perform. Accounting profession across the globe had come under spotlight following major accounting scams such as Enron and Xerox.

“The peer review is like ISO 9000 for CAs. In India, scandals like Enron have not occurred so far. It is a proactive measure taken by us. We want to ensure a security stamp with regards to competence and perfection of accountancy services,” said Sunil Talati, president, ICAI.

Peer review certification process

- ICAI shall empanel auditors (reviewers) with atleast 15 years of experience.
- The reviewers shall be imparted requisite training.
- ICAI shall identify the CA's/firms to be subjected to peer review or initiate the process on an application from a CA/firm for peer review.
- ICAI shall recommend a probable list of 3 reviewers to the CA/firm.
- The CA/firm shall be given an option to choose from the probable list.
- On selection, the auditor shall review the CA/firm. The reviewer shall gather information on the systems and procedures through a questionnaire.
- Based on the questionnaire, further analysis shall be made. If, satisfied, final report shall be sent to ICAI recommending issue of peer review certificate.
- If not, interim report shall be given to the CA/firm with suggestions to further improvise the system. 6 months time shall be provided for the implementation of suggestions.
- Post that, the peer review process will be repeated and on satisfaction of the reviewer, report shall be submitted to ICAI.
- On receipt of the report from reviewer, peer review certificate shall be granted by the ICAI.



The aftermath of Enron fiasco stirred the genesis of peer review mechanism in India. Peer review shall monitor the systems, procedures, filing & auditing practices, compliances, documents, files, and records maintained by the auditors while certifying auditing practices. It is a proactive measure towards better governance.

ICAI, recognizing the need to be at par with developed countries with regard to the quality of attestation services, established the Peer Review Board in the year 2002. Since inception, the status of peer review certification is tabulated in the following table.

No. of companies in India	79,000
No. of government companies	1,400
No. of publicly listed companies	17,000
No. of CA professionals / firms	3,000
No. of CA professionals / firms selected for peer review	1,200
No. of CA professionals / firms scrutinized	800
No. of CA firms with peer review certificate doing audits	259

Even as SEBI and ICAI take steps to ensure the quality of auditors, there is little in law to punish those who do not maintain stipulated quality standards. In case of any default, the peer review board just informs the CA professional/firm about the anomaly and asks to make suitable amendments. In such scenario, certification is withheld.

The mechanism has just ushered. The peer review norm is a step towards boosting stakeholders' confidence and a shield for the non-concurrence of Enron or Xerox fiasco.

- Komal, Shilpa, Bherulal, Nikhil

The FDI Buzz.....

Law has pervaded into almost every aspect of human life and the implications are increasing day by day. “*Ignorance Of Law being no excuse*”, it is necessary that there should be a general knowledge of law. The need of our *article* is to spread knowledge of CORPORATE LAW to not only professionals, but also to the common man.

This article precisely highlights the deal of *Hutchison Essar and Vodafone's Foreign Direct Investment (FDI) in Indian markets*. Indian market has been the greater attraction for all investors across the globe.

What Is FDI?

It is the movement of capital across national frontiers in a manner that grants the investor, control over the acquired asset. Thus it is distinct from portfolio investment, which may cross borders, but does not offer such control. Firms, which source FDI, are known as ‘Multinational Enterprises’ (MNEs). It is Investment in one country by firms owned in another country.

FDI Cap in Telecommunication sector in India is as follows-

<i>Nature of Service</i>	<i>FDI Cap</i>	<i>RBI Guidelines</i>	<i>Ref:</i>
Basic & cellular, Unified Access services, national international long distance, VSAT, Public mobile radio trunk services (PMRTS), global mobile personal communication services (GMPCS)	74 % (Including FDI, FII, NRI, FCCBS, ADR'S GDRS, Convertible preference shares & proportionate foreign equity in Indian promoters/investing company)	Automatic Route up to 49%, beyond 49 % approval from FIPB is required.	PN5/2005

FDI Policy - permits FDI up to 100% from foreign/NRI investors without prior approval in most of the sectors including the services sector under the automatic route.

Automatic Route – The automatic route means that foreign

investors only need to inform the Reserve Bank of India within 30 days of bringing in their investment, and again within 30 days of issuing any shares. The negative list includes the following:

- All proposals that require an industrial license because the activity is licensable under the Industries (Development and Regulation) Act, 1951, cases where foreign investment is more than 24% in the equity capital of units manufacturing items reserved for small scale industries, and all activity that requires an industrial license in terms of the location policy notified by Government under the Industrial Policy of 1991
- All proposals in which the foreign collaborator has a previous venture/tie up in India.
- All proposals relating to acquisition of shares in an existing Indian company in favor of a foreign/Non Resident Indian (NRI)/ Overseas Corporate Body (OCB) investor.
- All proposals falling outside notified sectoral policy/ caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the Foreign Investment Promotion Board and not to avail of the automatic route.

Following is an *example* that shows the impact of FDI on India with the deal made by **Vodafone**, the world's largest cellular service telecom industry & **The Hutch group**.

In the open bid for stake in Hutchison Essar Limited India (HEL), Vodafone emerged winner with HEL India value placed at *11.1 billion\$*, finally settled for *10.8 billion\$* for 52% stakes. Vodafone had 33% stakes in Essar-Mauritius, of which 22% constitutes FDI. The *15%* stake that is held by the two Indians & IDFC was said to be FDI as the same was funded by a foreign body **HTIL Singapore** to acquire stakes in HEL India, allegedly the total FDI funding exceeded the ceiling of *74%*.

The following summarizes the share holding pattern of **FDI** in HTIL India :

<i>Entities</i>	<i>% Holding</i>	<i>Remarks</i>
HTIL – Hong Kong (now acquired by Vodafone)	52.00%	Held under CGP Investment (holdings) Limited (SPV) in Cayman Island as FDI
Essar – Mauritius	22.00%	Of the 33% stakes held by ESSAR Limited India, 22% constitutes to be FDI
Asim Ghosh, Anjalit Singh & IDFC	15.00%	The same is funded by HTIL Singapore, which gives them indirect holding/control in HTIL India.
Total	89.00%	Allegedly crossing the 74% FDI Cap

Indians & IDFC) of *15.00 %* stake cannot be termed FDI, as a loan was sanctioned to the holders (Indians & IDFC) to acquire such stakes. Thus Vodafone got the green signal to go through the deal.

The impacts are as follows:

- Indian government is happy to have a global telecom giant in India and is happier to make Reliance Telecom invest aggressively expand the GSM footprint creating more jobs and small business opportunities for Indians.
- Reliance would face stiff competition, thus making more and ultimate increase in employment opportunities
- HTIL's wanted a fair price to exit and he is a happy man.

Though the deal is approved it yet remains an ambiguity that the law for indirect funding in India must be precise to effectively overcome such issues in the future.

In our opinion the stakes bought in by the two Indian Partners, were guaranteed loans by HTIL Singapore to buy their respective stakes in the company, it is alleged that HTIL has voting rights over their shares, thus taking its interest to 67%.

The intention of Vodafone is evident from the transaction so as to acquire 67% stakes in HTIL India so as to gain Voting rights in the shares held by the two partners in India & leaving the Economic interest with HTIL Singapore. In such scenario, along with Essar's 22%, HEL India overall FDI limit goes past 74%, thereby violating the FDI norms.

There is evidence to show that the FIPB itself had, after carefully analyzing the facts, concluded that Hutchison Telecommunications International Ltd's responses were inadequate. It felt that there were **BENAMI** transactions

and that HTIL's stake was in excess of the 74% cap on FDI in the telecom sector. It also felt that Hutchison was not forthcoming with facts to prove that it had not violated the FDI cap or indulged in **BENAMI** transactions.

****Definitions.** – In Benami Transaction (Prohibition) Act, unless the context otherwise requires, -

(a)"Benami transaction" means any transaction in which property is transferred to one person for a consideration paid or provided by another person:

(b)"Prescribed" means prescribed by rules made under this Act;

(c)Property means property of any kind, whether movable or immovable, tangible or intangible, and includes any right or interest in such property.

- Abhishek, Swapna, Puneeth, Tanuja

The Information Hotpan

– providing news for your Business

Sports:

Rafael Nadal Breaks 22 Year Old Record Set By

John McEnroe

Somewhere in the world **John McEnroe** may be throwing his racket at the ground and screaming at the television because Spanish hottie **Rafael Nadal** extended his winning streak on clay court matches won to 76. This recent win in the semifinals of the Rome Masters on Saturday, broke a 22 year old record set by McEnroe for most victories on one surface. **Rafael Nadal** racked up his third Rome Masters title in a row with his victory over Fernando Gonzalez, this gave Nadal his 13th consecutive clay court title and extended his winning streak on the surface to 77 matches.



International:

Thomson agrees to buy Reuters for \$ 17.2 billion

Thomson Corp. has agreed to buy Reuters for about 8.7 billion pounds (\$17.2 billion) to create the world's biggest financial news and data group. The combination of these two great businesses will create an exceptional global information company guided by the Reuters Trust Principles," Reuters Chief Executive Tom Glocer said. The new dual-listed Thomson-Reuters will have revenues of about \$12 billion and almost 49,000 employees. Thomson and Reuters news and financial businesses will be called Reuters. Other existing Thomson businesses will be known as Thomson-Reuters Professional.



Internet:

Google Search gets a universal glow

Google Inc. said on Wednesday it is combining its different Web search services into one "Universal Search" service that will present Web sites, news, video and other results on one page. In addition, the company is introducing new navigation features at the top of every Google page that let users to quickly hop between its different properties. The company also is preparing a translation service that converts queries into other languages, allowing a user to comb a broader swath of the Web, Google's Vice President of Engineering, Udi Manber, said at the event. This will give users in any supported language a broader view of information on the Web.



- Komal, Soumitra

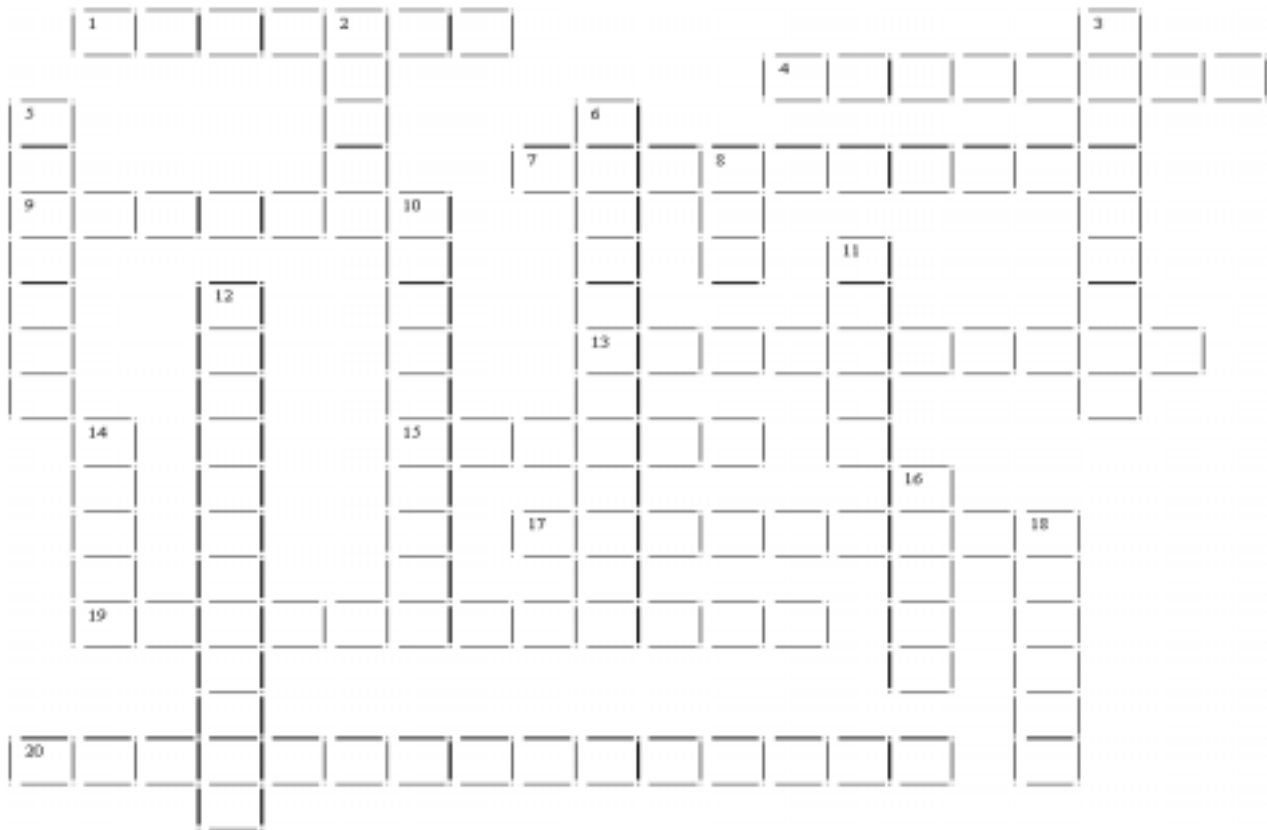
Institute Of Chartered Accountants of India:

Tax Audit Limit Increased from 30 to 45

The maximum limit of Tax Audit for a member in practice, as individual or as a partner in a firm, was fixed at 30 as back as in 1989 with the objective of ensuring quality and equitable distribution of work. In view of fast expanding economy and increase in number of such assignments coinciding with enhancement of professional competence of members to perform quality services in an IT-enabled environment, it was decided to review the maximum Tax Audit limit. As such, the Council of the Institute at its 268th meeting held from 30th April to 2nd May 2007 decided to increase the Tax Audit limit for practicing Chartered Accountants, as individual or as a partner in a firm, from 30 to 45.



CROSSWORD



ACROSS

- 1 First Indian company listed on NASDAQ (7)
- 4 Appointed by directors of a corporation to carry out its policies.(8)
- 7 Trend analysis is related to _____ analysis.(10)
- 9 A method of stabilizing a country's currency by fixing its exchange rate to that of another country. (7)
- 13 A statistical method for determining the equation of line by using the least-squares method.(10)
- 15 Taxes typically added to liquor, cigarettes and other non-luxury items & favoured by state government.(3,3)
- 17 A situation in which an entrepreneur starts a company with little capital.(9)
- 19 October 29, 1929, when the DJIA fell 12%- one of the largest one-day drops in stock market history. More than 16 million shares were traded in a panic sell off-Identify the day (5,7)
- 20 Typical of a line of credit or credit card in which the amount of available credit increases and decreases as funds are borrowed and then repaid (9,6)

DOWN

- 2 The latest car launched by Maruthi Udyog is SX4 in May , 2007. Which segment does it belong to? (5)
- 3 Expense is similar to Depreciation Expense except that it involves natural resources.(9)
- 5 An expense is often a cost that has been used up or has _____ during the current accounting period (7)
- 6 The largest companies in the United States are not sole proprietorships; rather, they are...(12)
- 8 Big blue is the nickname of this company. (3)
- 10 An information circular prepared by an underwriter that summarizes the main components of a new issue's prospectus.(10)
- 11 The annual rate of return for any investment and is expressed as a percentage. (5)
- 12 The insurance that covers injuries incurred by employees on the job is worker _____ insurance.(12)
- 14 An organization that sets GAAP in the U.S. for federal government entities.(5)
- 16 Follow a transaction through the steps of the system. (5)
- 18 The par or official value.(6)

DNS Family (The Lighter Side)



Surprise Surprise!!

DNS family was taken by a complete surprise when Venkatesh, a former member of our family & Swapna an article student announced their Engagement. Though this was a very pleasant surprise, it took some time to sink in. Every one here at DNS congratulates & wishes them a great future ahead.

Boys Day out

In order to bid farewell to Omkar alias omiboy, the boyzone of DNS had arranged a one day trip to Burmuri Falls. It was all fun & frolicking as everyone soaked and tanned under the sun, relishing in the Beauty of Nature. All in all it was an enjoyable outing making it a trip to remember.



New kids on the Block

D&S is a family having a dynamic team of Chartered Accountants attributed with knowledge, expertise and commitment. D&S today has headcount of 53 people including 9 Chartered Accountants. Here we heartily welcome all new members in D& S Family. The presence of so many people of different skills and talents in D&S adds to the charm of our family. We wish all the new joiners a great future ahead. Hope they welcome every morning with a smile, look on the new day as another special gift from their creator, another golden opportunity to complete what they were unable to finish yesterday. Let their first hour set the theme of success and positive action that is certain to echo through the entire day. Today will never happen again. Don't waste it with a false start or no start at all. Just keep going and add a new zeal to the family.



Quiz Contest

The whole DNS family turned into a war zone on 19th of May 2007 when 10 teams competed against each other for the coveted title of the "Quiz Lords", organized by the Editorial Board. Six teams that made it to the finals had to go through six grueling rounds of Questioning. In a nail-biting finish that followed the team of Sumana & Harish were edge by Mridula & Mithila in the tie up question to lay their hands on the coveted Title. We congratulate the winners for their success.

winners for their success.

All the very best

The family takes this opportunity to bid adieu to its member Mr. CA Anil Kumar. We wish him all the very best in all his future endeavors.

We also wish success and luck to Mr. Omkar Godbole and Ms. Mridula Baasri in their

CA Final exams .

Lateral Thinking

Are you open minded, flexible and creative in your questioning and able to put lots of different clues and pieces of information together. This is lateral thinking.

So lets see if you can find solutions to the following puzzles.

- 1) A helper in a butcher's shop is 5' 10" tall. What does he weigh?
- 2) Two people alone in a room. One looks around and realises he's going to die.
- 3) A man walks into a bar and asks the barman for a glass of water. The barman pulls out a gun and points it at the man. The man says thank you and walks out.
- 4) A man and his son are in a car accident. The father dies on the scene, But the child is rushed to the hospital. When he arrives the surgeon says, "I can't operate on this boy, he is my son!" How can this be?
- 5) A woman goes to a shoe shop and buys a pair of high heeled shoes, goes to work and dies. HINT : (She works in a circus)
- 6) In Canada, on a lawn were five pieces of coal, a carrot and a scarf. These things may not make any sense but they are of much importance to children who play in the snow.
- 7) Anthony and Cleopatra were lying dead in their villa in Egypt. The window was open and a broken glass bowl lay nearby. Neither of them were poisoned nor was there any bruise on their body. How did they die?
- 8) Which two words contain the most number of letters?
- 9) A woman has two sons. Both were born on the same day and in the same year, But they are not twins. How can this be?
- 10) Two players play five games of checkers each. Both of them have won all the games they have played. There were no ties or a draw game. How can this be?

Rayan Sequeira

Answer the above questions and Mail it across to dns.newsletter@gmail.com

Hurry, Last date for the submission of your Answers is 15th June.

Answers will be published in the 2nd issue of the newsletters July edition.

General Insights IN A NUTSHELL:

MARKET CAP

	CURRENT (\$ BN)	PERCENT WORLD
World	56024.88	100
America		
United States	18626.99	33.25
Canada	1688.85	3.01
Brazil	909.00	1.62
Europe/Africa		
Britain	4018.58	7.17
France	2837.59	5.06
Germany	2036.63	3.64
Switzerland	1297.11	2.32
Italy	1157.71	2.07
Asia/Pacific		
Japan	4887.17	8.72
China	2305.14	4.40
Hong Kong	1902.15	3.40
Australia	1114.95	1.99
India	1002.79	1.79

Markets:

Sensex	14544.46
Nifty	4295.80
Dow	13653.97
FTSE	6640.80
Nasdaq	2601.99
Nikkei	17875.75

Rates:

Rs/Dollar	40.61
Rs/Pound	80.02
Rs/Euro	54.62

Crude:

Brent	67.96
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Bullion:

99.9 Purity Gold:	Rs. 8690
Silver (Kg):	Rs. 18375

-Closings on 31st May 2007



"Except for the people, the hours, the work, the stress, and the pay, this is the best job I ever had!"

Editorial Board

Editor	Rayan
Co-Editors:	Shilpa, Soumitra
Review Heads:	CA Sheshachar, CA Anil, CA Mukesh, CARajini, CA Pawan
Correspondents:	Komal, Pavitra, Udaya, Mridula

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