IAMAI
INTERNET & MOBILE ASSOCIATION OF INDIA

Annual Report 2006/07

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CHAIRMAN'S MESSAGE

Dear Members,

At the beginning of 2006/07 when I assumed office as the Chairman of IAMAI, I had set out to achieve a few targets. These were:

1. Work with members and the council to establish a common vision of the future for our industry.
2. Make the organization more fair and equitable through fees and membership rationalization as well as governing processes that provide everybody with an equal voice.
3. Recruit as many relevant members as possible. I believe, our strength lies in numbers and our legitimacy derives from how broad based we are.
4. Evangelize and promote the medium through events, research, networking, etc.
5. Reduce friction through government relations and education.

This Vision was shared with the IAMAI General Body as well as with the Secretariat and I am thankful to all of you for believing in it.

The day the Executive Council (EC) took over office things were a bit uncertain. The Secretariat was being reconstituted, the office of the association was being moved and most importantly, we were not too sure how many existing members would stay on and how many new members would buy into the Vision. I think our biggest concern was that we would be faced with a huge income shortfall due to the changes in the fee structure and the constitution.

Today, as the EC completes its term, you would not have failed to notice the changes that have taken place in the association. I feel proud to reiterate that much of the vision and targets that we had set out at the beginning of the year have been met. In fact, even after changing our fee structure dramatically, we have ended ahead of last year. We have also been able to start a few path-breaking initiatives which could come into fruition in course of 2007/08.

To my mind, the most important changes have taken place in the area of internal governance which was a matter of some concern among many of our members. By reducing our membership fee, by introducing direct elections based on the principle of one member one vote and by seeking membership across the country, IAMAI today is much more democratic, transparent and broad based. I hope that this trend would continue in the future.

In terms of activities, the year has been packed. Six large conferences which provided many more members many more opportunities to share their thoughts publicly; new areas of research on mobile value added services, online gaming and revised internet numbers and partnership with IMRB helped re-establish the quality of IAMAI research; consensus building around legislative and regulatory issues not only brought the members closer but also allowed us for the first time to push for legislative changes in an organized manner. Last but not the least, our proactive approach to the media ensured that the industry got its due share of coverage not only in newspapers but main stream magazines as well as the electronic media.

Some of the important initiatives that we started this year but which would probably unfold more clearly in 2007/08 are a system of credit and accreditation for digital agencies; creation of an online fraud prevention platform through our payments committee and finally the digital marketing training course which our agency members are putting together.

In all our activities our success stems from the fact that the members have been actively involved in the process. We close the year with 42 corporate members representing nearly 80 per cent of the market share in the internet space. In the mobile value added segment, we have for the first time made some significant progress and have on board three of the leading companies with some more to follow suit.

The secretariat of IAMAI has played a seminal role in holding the "folks" together while moving forward at great speed. Much of what has been achieved this year is because of the sagacity and tenacity of the secretariat. Their achievements are further amplified by the fact that the secretariat has only completed its first year.

I would also like to personally thank the GC, Avnish and Subho for helping us stay the course during this fruitful year. It is only with the GC's participation & wisdom, Avnish's guidance and Subho's action-orientation that we have been able to achieve so much. Also, I would be amiss if I did not recognize the hard-work put in by Gaurav, Mehul, Kalyan, & Aparna.

Finally, my congratulations to the first elected governing council of the association. The stage is set for a great future and I am sure the new council members will guide the association to newer heights.

Warm regards,
Anupam Mittal

VICE CHAIRMAN'S MESSAGE

Dear Members,

FY 2006/07 was an important year for the association and the industry as a whole. Anupam has covered the progress made by the association and I thought I would highlight some key progress as well as potential issues for the Internet and MVAS industry.

One of the key highlights of last year for the Internet industry has been the IPO of Info Edge (parent company of Naukri.com amongst other properties). This was a seminal event for the Indian Internet industry since it shows that good quality Internet companies continue to have interesting options for raising capital including from the public markets. The Venture fund-raising environment for Internet and Mobile companies continues to be strong and quite a few investments were made in Internet and MVAS companies in '06/'07.

On the fundamentals front, the growth in the Internet user base continues to be strong – with increased usage from existing users being a force multiplier for the companies in this sector. The advertising market continues to grow well yet the Internet continues to be underserved from an applications standpoint in this country – which provides a fabulous opportunity for new start-ups as well as existing companies in building strong Internet properties. In fact some of the Media companies in India have already started making credible progress on this front.

The Mobile subscriber base has also expanded dramatically and India is now adding more subscribers on a monthly basis than any other market in the world and we are also starting to see adoption of higher value-added services which depend on features such as GPRS.
The key target that continues to disappoint is Broadband penetration and the policy makers seem to recognize it and are looking at ways of incentivizing growth of this critical segment (by TRAI mandating decrease of bandwidth leasing costs, for example)

From a regulatory perspective, we also made some progress. We engaged deeply with the policy makers and put forth our views on key policy decisions which would help accelerate the progress of the member companies both as part of the FY08 Union Budget process as well as in direct engagement with the Ministry of Information Technology. Like is the norm with such engagements, we expect our efforts to bear fruit over some period of time.

There were some policy related decisions which also set the industry back a little bit. Chief among these were the introduction of a Fringe Benefit Tax (FBT) on ESOPs as well as the limitation of investment sectors for Domestic Venture Capital Funds (VCFs) to qualify for pass through benefits. Both these would hurt the start-up environment in the country (with FBT affecting the established players as well) and we have made our views known to the policy making bodies.

As with most industries, there are some positives and some not so positive items. But there is no gainsaying the fact that this is a great time to be associated with this industry with the excellent peer group at IAMAI! I also take this opportunity to congratulate and welcome the newly elected Governing Council.

I wish you all a great year ahead and hope that the association will grow from strength to strength.

Warm Regards,
Avnish Bajaj

FOREWORD

It is my pleasure to present the annual report for the year 2006/07. IAMAI completed three years of hectic existence and has just stepped into the fourth year. This is the account of some of the work that your association did during the course of the year gone by. Much of what is mentioned here is "work in progress" and we hope, with the help of our members and industry at large, we would be able to close the lid on some of these issues and move ahead.

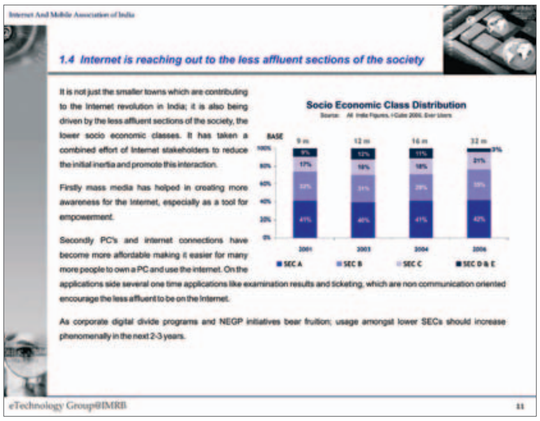
With this report we are beginning the practice of publishing our annual report every year and distributing it to all members as well as to select non-member companies. This will help us keep a track of our work at the association as well as bring members and other stakeholders closer to the association.

Hope you will enjoy reading this.

Please contact me on subho@iamai.in for any comments or suggestions.

Subho Ray
President

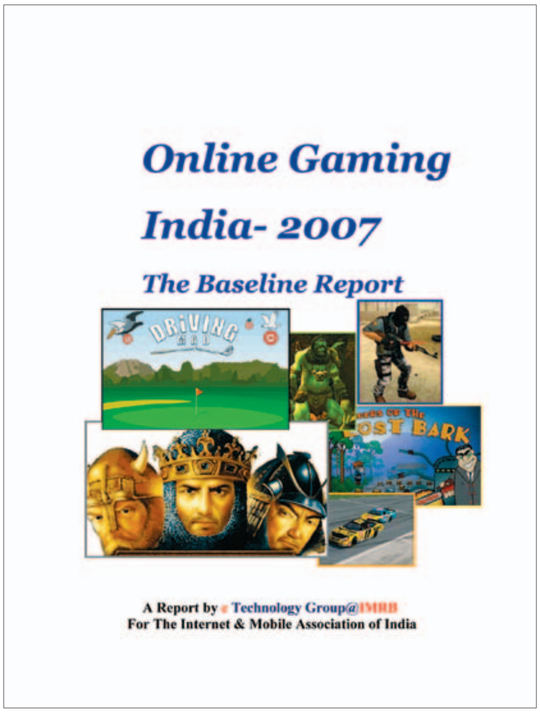
RESEARCH

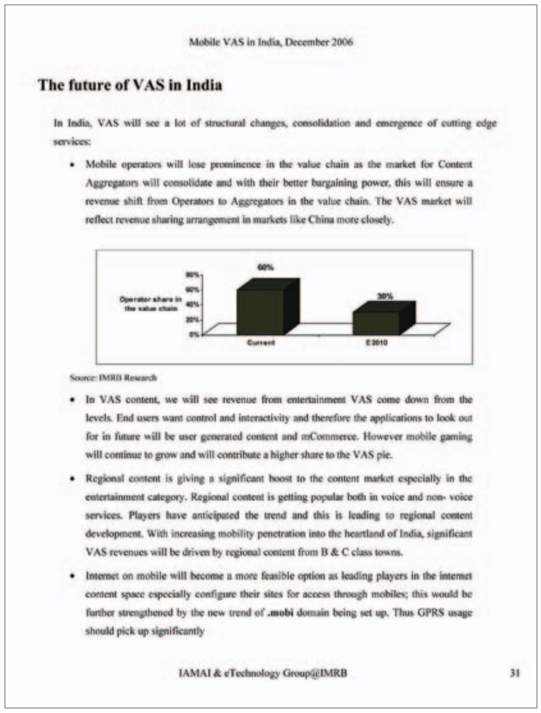


Since it was set up, research has been one of the important remits of IAMAI. In fact, it would not be an exaggeration to suggest that for the last three years, IAMAI has been the only organization to conduct and publicly share most of the important market and consumer research that is currently available for the internet industry. For the first two years, research was mainly based on online surveys. However, in the past year, with the view to make IAMAI research more broad-based, authentic and process oriented, we established a partnership with the eTechnology Division of IMRB International, which has had an impeccable track record of internet research since 1998. As a result of the partnership, IMRB has shared with IAMAI its primary research on internet numbers, user patterns, access points, geographical distribution of users etc. The research was published as Internet in India in December 2006 and has since become the most acceptable numbers among government and industry. It may be worthwhile adding here that a stricter process of reckoning as well as switching to field research meant that this year IAMAI had to substantially revise the internet user numbers as well as the projection. This one time correction would help up build more realistic numbers as well as projects in the coming years.

Search Marketing in India seems to be booming. To give the marketers some idea of what the market size was and where it was headed, IAMAI in partnership with our member company, Pinstorm Technologies, undertook the first research in India on Search Engine Marketing. The study was published in August 2006 and created quite a ripple in the market since very few people then had any idea about the current size and the future potential of this segment. In the coming year, IAMAI plans to continue with this study making it broad based and also tightening the research method further.

The study on the mobile value added services undertaken in partnership with IMRB in December 2006, was again a pioneering effort to capture the total market size of the industry. Primary research was conducted by reaching out to a cross section




Mobile VAS in India, December 2006

The future of VAS in India

In India, VAS will see a lot of structural changes, consolidation and emergence of cutting edge services:

- Mobile operators will lose prominence in the value chain as the market for Content Aggregators will consolidate and with their better bargaining power, this will ensure a revenue shift from Operators to Aggregators in the value chain. The VAS market will reflect revenue sharing arrangement in markets like China more closely.

Source: IMRB Research

- In VAS content, we will see revenue from entertainment VAS come down from the levels. End users want control and interactivity and therefore the applications to look out for in future will be user generated content and mCommerce. However mobile gaming will continue to grow and will contribute a higher share to the VAS pie.
- Regional content is giving a significant boost to the content market especially in the entertainment category. Regional content is getting popular both in voice and non- voice services. Players have anticipated the trend and this is leading to regional content development. With increasing mobility penetration into the heartland of India, significant VAS revenues will be driven by regional content from B & C class towns.
- Internet on mobile will become a more feasible option as leading players in the internet content space especially configure their sites for access through mobiles; this would be further strengthened by the new trend of **.mobi** domain being set up. Thus GPRS usage should pick up significantly

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of mobile value added services companies on the basis of which the market size of various segments of mobile value added services was estimated for the first time in India.

The Online Gaming research, again the first of its kind in India, was undertaken in partnership with IMRB in January 2007. Since the online gaming industry is in a very early stage of development, the focus of the study was not only on the current market size, but also on steps that would create an enabling environment in India for online gaming to become more popular and act as a tool for greater adoption of Internet.

E-Commerce market sizing is at best been difficult, and at worst controversial in India. Part of the problem we realized was in the absence of a clear cut definition and parameters around which market research was carried out. To plug this lacuna, IAMAI undertook and extended exercise in arriving at a consensual definition of e-commerce and what were the segments that could be included under it. The definition was debated among members and an acceptable definition for India has been arrived at. Based on this definition and in partnership with IMRB, we have initiated perhaps the most ambitious research on the size of e-commerce in India. It has been a complicated and time taking exercise. But with the definition firmly in place, we hope to publish the results of the research by the end of June 2007. This study, the most important from our perspective, would provide us with the size of important segments such as online travel, online retail, online classified and online transactions. We hope that this would set a benchmark for all e-commerce research in India.

Finally, we have just initiated work on a rather niche area supply side b2b ecommerce with a view to a) gradually look at the possibility of including and representing more and more b2b players within IAMAI b) make the SMEs aware of the opportunities that supply side b2b gives them for marketing their products and services to overseas buyers.

Overall, in the research space this year, IAMAI has consciously decided in favour of field research, more rigorous processes and more broadly accepted results. We intend to carry on with our successful partnership with IMRB in the coming year.

WORKING WITH THE GOVERNMENT

This was the first year that IAMAI decided to work in a coordinated manner with the various government departments. It was felt by members that the government in India has a significant, indeed a leading role, to play in promoting internet adoption, in providing an enabling environment for online and mobile content industry to grow and in creating a regulatory environment which is supportive of the industry. In order to build a strong bridge between the government and the industry IAMAI involved itself in the following issues:

Short Code:

Earlier in the year a notice was served by the department of telecommunications on short code owners instructing them to change all existing short codes and align the short codes with the national numbering plan. For the mobile content industry which had spent huge amounts of money marketing the short codes, it was a rude shock. Resolving the issue in favour of the short code owners was beyond the then strengths of IAMAI. However, softening the landing and giving the industry a fair hearing was not. IAMAI, therefore, with the wholehearted support of CII, met the Chairman, Telecom Regulatory Authority. Following the meeting, CII took up the matter with the Department of Telecommunications and the industry was offered an extension till August 2007 as well as a fair hearing on the migration to the new numbering plan.

Pre-Budget Memorandum:

The Union Budget is the time when various sectors collectively put together their wish list around fiscal and taxation issues to the Ministry of Finance. It was also an opportunity for us for the first time to understand from our members their collective and consensual wish list. For the first time, therefore, IAMAI undertook an exercise to submit a Pre- Budget Memorandum to the Ministry of Finance. The top most issues flagged in the memorandum centred around service tax: service tax on data download, service tax on online advertisement and service tax on credit transactions. The mobile content industry was also keen that mobile content be brought under the vortex of service tax. The Union Budget on the whole was not very encouraging for industry and many of the service tax issues that IAMAI wanted resolved were not carried through. However, as per the recommendations of IAMAI members, mobile content was brought under the purview of service tax. In the absence of clear direction on service tax status for mobile content, VAS players were subject to ad-hoc arrangements with telecom operators. In some cases VAS companies were charging the tax and in many instances they were not. Without the inclusion of mobile content under the purview of service tax, VAS companies were faced with a ballooning liability if such a service tax were imposed retroactively. This would have been detrimental to some companies.

The pre-Budget memorandum would be an annual exercise based on the structure that we evolved this year.

Post-Budget Memorandum:

The IAMAI Post-Budget memorandum sent to the Department of Information Technology as well as to the Ministry of Finance argued against a) imposition on FBT on ESOPs and b) discontinuation of the pass through provision of venture funds. The second issue affected mainly the VCF registered in India and was taken up by other representative organizations of the VCFs as well. IAMAI took up both the issues very strongly with the Department of Information Technology which has forwarded a favourable recommendation on both the issues to the Ministry of Finance. IAMAI appreciated the support of the department in this regard.

Interaction with the Minster of Communications and IT:

On 21 January 2007 some members of the association were invited to interact with the Honourable Minister of Communications and IT in New Delhi. The Honourable Minister wanted to ideate on the ways and means of increasing

broadband penetration in India. The members suggested the following six ways of increasing adoption and penetration of broadband in India.

- 100 per cent college, school internet access
- Fund language tools and game development
- Tax breaks for angel investors
- Allow stock options for promoters
- Get TRAI to mandate fairer treatment for MVAS industry, e.g., margin sharing, timely payments
- Reduce cost of broadband access

Since the meeting, IAMAI has been working determinedly with the government to implement some of the action points discussed at the meeting.

Mobile Value Added Services:

Top most issue discussed with the Honourable Minister was to establish a more liberal regime of revenue share and payment schedule in favour of the mobile value added services industry. Towards this IAMAI prepared a paper that suggested inter alia a process of graduated regulation beginning with a statement on the inequitable nature of the current nature of revenue share and the need to bring it at par with other similar markets in the world. Following the submission of the paper, some members of the association with the support of CII, also met and made an extended presentation to the chairman, TRAI. While the regulator understood the issue and was sympathetic, his suggestion was to get a clear recognition for the industry from the DoT as content and application service provider.

Broadband access cost:

IAMAI prepared a paper for the department of IT which substantiated the argument that cost of internet and broadband access to consumers as well as cost of hosting in India were high compared with the US and other countries in the South East Asia region where the use of internet was widespread. The paper also showed that the lack of online and real time mapping of IP addresses lead to problems of security and absence of targeted marketing in India. Partly as a result of this paper, there has been an announcement recently that the government would be working towards making broadband freely available to all its citizens by 2009. This is a revolutionary announcement and if implemented successfully will go a long way in improving the state of internet access in India.

Fund Gaming and Local language tools:

Going forward, online gaming and adoption of local languages are perhaps to be the main drivers of internet adoption in the country. However, as mentioned earlier the online gaming industry in India is still in its infancy and requires some regulatory push and support from the government to take off. Towards this IAMAI in addition to undertaking a pioneering research on the market size with a list of recommendations to accelerate the growth of this segment, also prepared a position paper on the benefits that would accrue to online gaming by declaring it an eSports and making available all the benefits to e-gaming that currently accrue to sports. This paper was forwarded to the department of IT in order to initiate a debate on the subject.

IAMAI recognizes the importance of local languages in driving the next round of growth of internet users. Towards this, post a series of meetings with government officials it was realized that the department of IT had undertaken some seminal work in the area and the association's role was limited to bringing those ideas to the industry.

Tax breaks for angel investors and stock options for promoters:

One way to scale up internet use in India is to promote new entrepreneurs and sufficiently reward established entrepreneurs. Towards this, IAMAI prepared a short paper suggesting changes in some SEBI regulations and Income Tax Act. The paper has been shared with the relevant ministries and is being followed up for action.

Access to Schools and Colleges:

The IAMAI IMRB study on internet use in India painted a very sorry picture of the state of connectivity in schools. Education being a state subject there is very little apart from advice that central ministries can give to them. However, as a first step, IAMAI has agreed to prepare a paper on a commercially viable package deal of hardware and connectivity in order that the schools can provide connectivity and computer at a reasonable cost.

Directorate General of Audio-Visual Publicity:

Internet is not yet a recognized medium for government advertisement. To push for an early recognition, IAMAI, under advice from some of the leading online publishers, has been in touch with various officials of the directorate. IAMAI was given to understand that the issue would be resolved by the end of March 2007. But the process is still on and it is hoped that the issue would be resolved by soon.

AWARENESS AND NETWORKING: SEMINARS AND CONFERENCES

One of the primary roles of IAMAI is to raise awareness of the industry among various stakeholders by providing training opportunities to youngsters, by creating interactive platforms for industry and by opening up networking opportunities for members. These aims are best achieved through awareness seminars and conferences. This was the year when IAMAI seriously looked at organizing several seminars and conferences. Some of them are mentioned briefly below:

Seminar on Search Engine Marketing:

Following the publication of the Report on Search Engine Marketing, IAMAI with the support of Pinstorm Technologies organized two seminars in Mumbai and Delhi in September 2006. The speakers at the seminars included representatives of SEM companies and their clients and at both the locations. Each of the seminars was attended by nearly 100 delegates.

Interaction with Mike Moritz:

The legendary Mike Moritz, Managing Partner, Sequoia Captial, was on his maiden visit to India in the month of September 2006. IAMAI in partnership with Sequoia Capital hosted Mr Moritz for a roundtable with leading entrepreneurs as well as for an open session. The roundtable discussed the problems of internet penetration in India and what would give a boost to the business. At the open session Mr Moritz spoke on "Google, You Tube and Who?" and shared his vast experience on the factors that made a successful tech company. The open session was attended by over 100 delegates.

E-Business Summit:

The E-Business Summit in Mumbai in November 2006 was the first large conference organized by IAMAI this year. The conference was an attempt to bring together the stakeholders and learn from them about the factors that would accelerate and impede the growth of E-Commerce in India in the next five years. The conference was supported by eBay India and was attended by 350 delegates. This would henceforth be an annual meeting.

India Digital Summit 2007

The flagship event of IAMAI, the India Digital Summit was this year held in New Delhi on 18–19 January 2007. To keep the focus equally on Internet and Mobile Value Added Services, the Summit dedicated one day to each. The Summit was supported by Google India among others and was attended by 400 delegates on the first and 280 delegates on the second day. The highlight of the Summit was the presence of the Honourable Minister for Communications and IT, Mr Dayanidhi Maran, as the Chief Guest on the first day. Mr Maran captivated the delegates with this open and frank interaction. Other notable speakers at the Summit included RK Arnold, Secretary, TRAI and Pankaj Agrawala, Joint Secretary, Department of Information Technology.

Digital Marketing Conference

The Digital Marketing Conference was held on 16 March 2007 in Mumbai. The idea behind the conference was to bring together the agencies and advertisers on a common platform and discuss the ways and means of speedier adoption of online advertisement. The conference was supported by Yahoo! India and attended by nearly 400 delegates. The Digital Marketing Conference too has now been designated as an annual event.

In addition to these, IAMAI also supported the following conferences and seminars:

a) Info Media organized India Gaming event in Mumbai [October 2006]
b) Eyefortravel organised Travel Distribution Summit in New Delhi [October 2006]
c) Podcasting Workshop with Aloo Techie in New Delhi [March 2007]
d) Venture Intelligence organized entrepreneurs meet in Mumbai [March 2007]

COMMUNICATIONS

One of the key areas of IAMAI's work is to communicate on behalf of the industry it represents. Towards this IAMAI consciously and proactively networks with the print and electronic media to put forward the industry's view correctly and accurately. One of the significant developments in the area of media relations this year has been more and more positive coverage about the internet and the mobile content industry and increased coverage in business magazines as well as the electronic media.

Thinking Aloud!

In addition to maintaining a proactive relationship with the media, IAMAI this year also launched an eZine named "Thinking Aloud!" [www.thinkingaloud.in].The idea behind the eZine is to reach the opportunities and successes of the digital world in India to large section of business and government representatives as well as young and aspiring executives. Published fortnightly, the eZine runs mainly with contribution by senior executives of member and non-member companies. It is currently emailed to 50 thousand readers.

INDUSTRY COMPETITIVENESS

Industry competitiveness covers those areas of work at IAMAI where certain business to business standards and practices are needed to be set in order that the sectors that IAMAI represents are allowed to operate and grow in a smooth manner.

Credit Policy and Accreditation of Agencies:

The most important initiative this area of work has been the beginning of the credit and accreditation policy for Digital agencies. Technically, the policy is based on the INS model and in lieu of credit to the digital agencies seeks to regulate the payment process between the online publishers and digital agencies. While this is just the beginning of the process, IAMAI is working on fine-tuning the process so that the interests of member agencies too are safeguarded especially vis-à-vis advertisers.

Mobile VAS Payments:

Another inter-industry issue which was taken up strategically this year was the issue of equitable share and timely payments for the mobile value added services industry. So far as revenue share is concerned, as mentioned, the Ministry of Communications has already been appraised about the need to make the mobile value added services regime more liberal that it is now. On the issue of MIS, reconciliation and payments, it was agreed by members that these being inter-industry issues be left to relevant industry bodies to be sorted out. With this in mind, an apex industry association and two sectoral associations were approached for support which does not seem to be forthcoming till the time of writing this report.

COUNCILS AND COMMITTEES

Executive Council:

The Executive Council, comprising the Chairman, Vice Chairman, Treasurer and President met formally and informally once a month with a view to implement the various measures suggested by the Governing Council.

Governing Council:

As scheduled, the Governing Council met every quarter and provided direction and strategic advice on important issues to the association. The last two meetings of the council were made open to all members in a bid to prepare them for the first elected governing council for the year 2007/08

Committees:

The following committees were formed this year:

- Online Publishers' Committee: This committee comprising all the publisher members were formed earlier in the year to work on formulating the credit policy and accreditation process of agencies. The policy has now been finalized and the committee would continue functioning as the implementing arm of the credit policy.
- Government Relations Committee: This committee, comprising representatives of all leading members, was formed to help the association build a corpus of fiscal issues that the industry wished to be addressed. The corpus finally took the form of the first pre-Budget memorandum of the association submitted to the government in December 2006. In March 2007, the committee also helped prepare the post-Budget memorandum which was duly submitted to the government in April. Continuing in 2007/08 this committee, in addition to preparing the pre-Budget memorandum, would also take up some other wider regulatory issues relevant to the growth of the industry.
- Digital payments committee: This committee was formed with a core group of three member companies who are in the digital payment space and several non-member representatives from banks and card companies were added. The purpose of the committee was threefold: a) to bring together all the stakeholders in the digital payments space under one roof to address inter-sectoral issues; b) to address issues of standards and compliance and c) to devise ways and means of preventing online payment frauds. The committee has been very active and has already met thrice in the year. In the coming year it would focus on building a online platform to address prevention of frauds.
- Events Committee: A four member events committee was formed earlier in the year to advice the association on the agenda and sponsorships of various events IAMAI had planned for the year. The committee made comprehensive suggestions to change the format of the Digital Summit and also advised the association on other large events such as the e-Business Summit and Digital Marketing Conference.

INTERNAL GOVERNANCE

Changes in Rules and Regulations of the Association:

It was the stated objective of the Chairman this year to make the association, transparent, democratic, inclusive and broad based. It was therefore not surprising that the most important changes the association went through this year was the in the rules and regulations of the association and the internal governance process. The highlights of these changes are given below:

- Merger of all previous membership categories into one category of corporate membership and creation of a second category “beginners” for start ups.
- Introducing the method of direct elections to appoint the members of the governing council.
- Drastic downward revision of fees up to forty per cent in some cases and also making the annual turnover of the company the basis of annual membership fee.
- Discontinuation of the process of automatic “promotion” of office bearers to the next higher level [e.g., Vice Chairman to Chairman and so on] and mandating that all members of the executive council be appointed afresh every year. Discontinuation of the post of Secretary.

The changes in the rules and regulations of the association have been duly notified to the authorities.

New Office:

At the beginning of the year the main office of IAMAI moved out of the office of a member company to a new separate office in Mumbai. In January 2007, adhering to the requests from a section of the membership, IAMAI opened a new office in New Delhi to service its Delhi based members better as well as to have improved networking with the government agencies.

ANNEXURE

1. PRE BUDGET MEMORANDUM [ABRIDGED VERSION]

Indirect Taxes:

a) Service Tax on Online Information and Database Services:

Issue:

- The term "computer network service" as defined under Section 65(75) of the Act is extracted as "on-line information and data base access or retrieval" means providing data or information, retrievable or otherwise, to a customer, in electronic form through a computer network."
- "Computer Network" has the meaning assigned to it in clause (j) of sub-section (1) of section 2 of the Information Technology Act, 2000 and means the inter connection of one or more computer through-(i) the use of satellite, terrestrial line or other communication media; and (ii) terminals or a complex consisting of two or more interconnected computers whether or not the interconnection is continuously maintained.
- In connection with Computer Network Service , Section 65(105) (zh) defines the taxable service as:(105) "taxable service" means any service provided or to be provided,(zh) to a customer, by a commercial concern, in relation to on-line information and database access or retrieval or both in electronic form through computer network, in any manner.
- CBEC vide Circular No. B.II/1/2000-TRU, dated 9th July 2001 has clarified the following in regard to levy of service tax under the head of 'computer network services':-
- e-commerce transactions will not ordinarily be covered under the Service Tax net under this heading.
- Internet Service Providers and online database providers are covered for the levy
- The non-levy of Service Tax on e-commerce transaction is on the basis that websites do not charge the surfers for information on sale of goods or services offered by them. However, if such information itself is sold then Service Tax will be levied.

Impact:

- Online "database" and information providers form the backbone of the internet economy in India
- There are no large internet and online companies in India. Most of the mid and smaller companies who provide useful services connecting up people with people and people with opportunities and information on the net for small subscriptions have been impacted by it
- The bulk of the internet users use the services of such service providers and the service tax adversely impacts the end-users
- The total amount of transaction on these sites currently is no more than 300 crores and the amount of service tax collected is not in commensurate with the adverse impact it has on the users

Recommendations:

- A moratorium on Service Tax on online database and information services for 5 years
- This will allow the nascent internet economy to grow and attain some scale and be capable of providing better and newer content which will in turn drive the use of internet in India

b) Service Tax on Online Advertising

Issue:

- Section 65 defines taxable services and various terms used in relation to taxable services. Section 66 is the charging section and provides for levy of service tax on taxable services. These two sections have been amended in the Finance Act, 2006 and these amendments came into effect from 1.5.2006. For details refer to notification No.15/2006-Service Tax dated 25th April, 2006.
- These amendments have brought online

advertisements under the vortex of the Service Tax. {Sale of space or time for advertisement, other than in print media; [sub-clause (zzzm)]}

Impact:

- Online advertisement is done by small and medium sized companies who want to take advantage of the internet and reach out to not only the Indian market but the global market
- Most of these advertisers do not have the financial strength to advertise on other expensive media like the broadcasting or print to access the local market and but for internet they will not be able to access the international market [advertising on foreign newpapers, TV and radio would be financially unthinkable for them].
- SMEs are the backbone of our domestic as well as international commerce, and Internet is the only medium available to them to access domestic as well as international markets. The additional impact of service tax will have an adverse impact on them.
- The online advertisement industry too is very nascent and it accounts for only 230 odd crores annually. Service tax collected from this segment is not commensurate with the efforts and cost of collection. Also, the service tax at this stage of development will hamper the growth of the industry.

Recommendations:

- Moratorium for a 5 year period on Service Tax will allow this nascent industry to grow in size and stabilize and be in a position to accept additional tax responsibilities.
- It will also help our SMEs grow and aspire to access new segments of consumers in the domestic as well as international markets.

c) Service Tax on Credit card, debit card, charge card or other payment card related services

Issue

- Section 65 defines taxable services and various terms used in relation to taxable services. Section 66 is the charging section and provides for levy of service tax on taxable services. These two sections have been amended in the Finance Act, 2006 and these amendments came into effect from 1.5.2006. For details refer to notification No.15/2006-Service Tax dated 25th April, 2006.
- These amendments have brought online payments under the vortex of the Service Tax. {Credit card, debit card, charge card or other payment card related services. [sub-clause (zzzw)]}

Impact

- The Indian credit cards industry is still in a relatively nascent stage when compared to economies of other developing countries. Only 1.4 per cent of Indians currently own a credit card. This is in sharp contrast to countries such as the United Arab Emirates and Kuwait where 63 per cent and 50 per cent of respondents, respectively, own a credit card. In South Korea, there are 400 million credit cards issued to about 100 million South Koreans and effectively this has brought the parallel economy in that country to naught.
- The usage of credit cards by Indians is also much lower than their Asian counterparts. Seventy-two per cent of Indians use their credit cards 1-2 times (or less) a month, while 23 per cent of Indians use their cards between 3-5 times and the remaining 5 per cent use cards 6 times or more every month. In the UAE, 31 per cent of cardholders use their cards more than 10 times during a month, while only 15 per cent use their cards 1-2 times (or less).
- Merchant discount rate, interchange, FX mark-up, etc are now explicitly under the service tax net, thereby increasing the end costs of products to the customers paying through credit cards. Even if the customer pays through his Net Banking account, the service tax is applicable. Also the Credit Card associations namely MasterCard and Visa have a different interchange rate of offline transactions and online transactions. While the interchange rate for offline transaction is significantly less than

1% of the order amount, the interchange rate for online MasterCard transactions is 1.66% and for Visa is 1.44% plus 0.2% for international transactions. The interchange rate charge by these credit card companies goes even higher if the cards used are corporate cards or platinum cards.

- When these rates are added to the new Service Tax rates, the cost of products and services sold online goes significantly higher than those sold offline. This seriously harms the nascent e-commerce industry in our country.

Recommendations

- To encourage the nascent e-commerce industry in the country and help it grow the removal of Service Tax on Online Internet transactions done through Credit cards, Debit Cards and Net Banking transactions may be considered.

d) Service Tax on Mobile Value Added Services:

Issue

- Currently, Service Tax is not applicable on MVAS services since there is no specific entry in the Service Tax Act to cover MVAS services.
- Operators do charge Service Tax when they provide MVAS services to their subscribers because they are covered by specific entry in the Service tax Act. MVAS players are providing services to operators and operators in turn have locus-standi with end users. Therefore, there is already Service Tax levied on end user prices.

Impact

- There is lack of clarity on VAT/ST versus Service Tax on Mobile Value Added Services

Recommendations

- All MVAS services should be categorised as telecom services and included within the ambit of service tax. This would put an end to the debate whether telecom services are goods or services.
- Secondly, MVAS companies should be given exemption from Service Tax since there is no revenue loss to exchequer as on end user price the government is being paid a service tax by the telecom operators who are billing the customers for MVAS services. Levying Service Tax on MVAS players would amount to duplication of efforts.

e) Service Tax on Intrenet Café :

Issue

- Service Tax was applied on Internet Café (zzf) in 2003

Impact

- Internet Café / Cyber café mainly serve those who do not have their own computers and/or cannot afford a regular service at their home, office, shop or institution. Service tax increases the cost of access for such people who are otherwise, economically challenged.
- According to the recent research, about 39% Internet users in India access from cyber café alone. Going forward, the upcoming 100,000 Common Service Centres being set up by the Government would also be impacted by way of service tax.

Recommendations

- Cyber café be exempted from Service Tax for at least 5 years. However, the cyber café itself would continue to pay service tax payable to the respective Internet Service Provider for the Internet Connectivity

2. POST-BUDGET MEMORANDUM

Post-Budget Memorandum

Submitted by the Internet and Mobile Association of India

1. **The case for withdrawal of FBT on ESOPs for internet/mobile value added services companies**

Background

The Finance Bill, 2007 has proposed to levy Fringe Benefits Tax (FBT) @ 33.99% on the benefit granted to employees on exercise of ESOP. For this purpose, clauses 30 and 31 have been inserted which seek to amend section 115WB and 115WC respectively of the Income Tax Act, 1961.

In terms of the proposed amendment, the value of fringe benefit would be the fair market value of the specified security or sweat equity shares on the date of exercise of the option by the employee as reduced by the amount actually paid or recovered from the employee in respect of such security or shares.

The Finance Bill has also proposed to delete the proviso to section 17(2)(iii) which had provided that the benefit granted to an employee under ESOP would be exempt from taxation as perquisites if the ESOP was in accordance with the Central Government guidelines.

Typical Effect

The internet economy in India is a fledgling one as compared to other large economies. This industry is poised to rapidly transform the lives of millions of Indians by bringing the power of knowledge and information to the masses. At the heart of this economy is a limited core of highly motivated and skilled employees and first generation tech entrepreneurs who are working on cutting edge technologies and striving relentlessly to catapult the Indian online industry to its rightful place on the global internet map. Indeed a number have already attained international fame and recognition.

Many of these companies are relatively small start ups working on limited financial resources and lack the size and financial muscle of players in other mature sectors. However they do need to attract and retain some of the sharpest minds in this country and even from overseas [much of the reverse brain drain in India has happened in this sector]. Such businesses have been relying heavily on stock options to attract and retain talent. A number of these businesses, which are not yet generating significant profits are today judged to be very valuable by external markets (perhaps disproportionately so when compared to almost all other industries).

To take an example, Rediff.com India Limited, a member of our association, which has over the past ten years grown to be a leading global internet player has started generating profits only from last year. Net profit for the year ended 31st March 2006 was Rs. 5.50 crores. The stock markets however value this company in excess of Rs. 2000 crores. Consequently even if 1% of the company's shares were exercised the resultant Fringe Benefit Tax would have not just wiped out the entire profits for last year but would have plunged the company into deep losses. This would cause great consternation among the investing community upon whom this industry is heavily dependant.

In the interest of growth of the internet industry we would urge you to withdraw this proposed levy on internet companies. Arguments in support of our request include the following:

1. In view of the high value of technology and intellectual property developed by companies in this space the "fair market value" of internet businesses is usually disproportionately high as compared to profits. To tax such companies on the market value of shares rather than on business profits would be putting an undue burden on them.
2. It will be impossible to predict in advance the timing and quantum of FBT and hence the fortunes of a company will swing wildly from period to period merely on account of timing and quantum of exercise. The investing community, on whom this industry is heavily dependant, does not like such surprises.
3. It is the employee and not the company who benefits from such sale and it is therefore logical that the employee should bear the tax on such gain, as is currently the case.
4. Typically employees who leave an organization carry their vested options with them. Levy of FBT on exercise would thus require companies to bear this burden not just for employees but ex-employees as well.

Recommendations:

The following are, therefore, suggested for consideration:

1. The proposed amendment should be dropped and the ESOP benefit should only be charged to tax in the hands of the employee
2. If the proposed amendment is not withdrawn it would give an unfair advantage to "foreign" companies who will be able to attract employees with foreign ESOPs which are not taxed in the manner the bill is proposing to tax Indian companies.

2. Amendment to Section 10(23FB) of Income Tax Act proposed in the Union Budget

Background

Section 10(23FB) of the Income-tax Act, 1961 (IT Act) provides that any income of a Venture Capital Fund ('VCF') or a Venture Capital Company ('VCC') is exempt from tax. However, the Finance Bill, 2007 has proposed an amendment to Section 10(23FB) which restricts the benefit only with respect to income from investments in Venture Capital Undertaking ('VCU'). Further, the definition of VCU is proposed to be amended to cover companies not listed on a recognized stock exchange in India and engaged in the business of

Nanotechnology, Information technology relating to hardware and software development, Seed research and development, Bio-technology, Research and development of new chemical entities in the pharmaceutical sector, Production of bio-fuels, building and operating composite hotel-cum-convention centre with seating capacity of more than 3,000, and Dairy or poultry industry.

Thus with the amendment taking effective, investment by a VCF and VCC in companies other than those mentioned above would not be eligible for claiming the benefit under the said section.

Recommendations:

The following are, therefore, suggested for consideration:

1. This measure, while not garnering much revenue, would adversely impact the fledgling Indian Venture Funds while the others will by pass its impact. This would not be healthy for creating ecology of venture funds in India.
2. Restricting venture fund flows to specific areas by law is counterproductive and restrictive to very nature of such funds and the issue should be left to be decided between entrepreneurs and investors
3. It is our understanding that the definition information technology including software and hardware would include internet and mobile content companies. However, since a most of the tech innovation and tech entrepreneurship in India is happening in these two segments, and since these two sectors are significantly dependent on Venture Capital at various stages in their growth, the government may consider formally including these two segments as a part of information technology to bring more clarity to investors.

3. PAPER ON : TOWARDS A MORE LIBERAL MOBILE VAS REGIME

Towards a liberal Mobile Value Added Services Regime

Approach paper submitted by the Internet and Mobile Association of India to the Ministry of Communications and Information Technology in March 2007

Introduction:

Revenue share related to the Mobile Value Added Services in India are very lopsided compared with large MVAS user countries such as Japan, Europe and China. In China for example, till July 2005 China Mobile took 15 per cent while the service providers took 85 per cent of the revenues. In 2005 China Mobile altered the rule marginally to allow for 85 per cent share to service providers only if they undertook marketing and customer services related to MVAS product. Otherwise, China Mobile would take 30 to 50 per cent. In Japan and Europe as well the revenue share is between 85 and 65 percent in favour of the MVAS service provider.

Charging and payment settlement (revenue share across the value chain) of Mobile VAS needs rationalization as the current practice in India is neither logical nor balanced.

There is often a debate whether this exercise should be left to market forces or should the regulator step in. There is a dominant view amongst most players of the VAS value chain that the regulator does need to step in to give it a clear direction and broad guidelines as the first step – just as it did to strike a balance between the Private Telecom Operators and State-owned telecom monopolies (BSNL/MTNL) – during the initial stages of telecom liberalisation which helped the telecom sector to boom in subsequent years. This will help the nascent Mobile VAS market to grow rather be stifled at the initial stages of growth.

With this larger objective in mind, the Internet and Mobile Association of India is happy to present this approach paper which could be shared and debated by the regulatory authorities, government and industry and a consensual resolution arrived at.

This short paper suggests four successive steps of increasing regulation. The first suggests an ideal situation for everyone in the value chain whereby the through very light-handed "regulation" in the form of guidelines and suggestions the issue is resolved. The MVAS industry is hopeful that no further regulation beyond this may be necessary. The second step looks at some structural changes in order to liberalise the Mobile VAS regime. The third step suggests a couple of models along which a minimum revenue sharing can be worked out. The fourth and the final step highlight a systemic issue of payment and reconciliation and suggest a way forward.

Step 1: Guidelines/Policy Statement:

IAMAI is of the view that as a first step a strong policy statement from the regulatory authority would go a long way in resolving the current inequities in the MVAS regime. The policy statement could inter alia cover the following areas a) the current inequities in India compared with other large MVAS markets such as Japan, Europe and China, b) the need give the industry the freedom to grow c) the need to provide open access to the networks by breaking down "walled gardens", and d) the need for a more liberal MVAS regime to allow the industry to grow through imaginative, innovative and useful services. The main point of the statement would be to open up access in a time-bound manner

Step 2: Structural Solution:

If the first step does not work out, as the second step Mobile VAS companies would suggest a structural approach to the issue with a view of make the Mobile VAS regime more equitable between telecom operators who are typically large and have control over access, and MVAS companies who are relatively very small and have no control over access.

- The issue and problems of revenue sharing arises primarily from the problem of access
- Under ideal circumstances, the operators should open their pipes, charge for access and keep the access revenues (access charges are regulated) charge a fee for billing and collection that could be open and published and clearly mark the cost of data access. This will help bring down walled gardens and help the operators run the access/pipe business separately while give the freedom to those who are in the content and services business to avoid unfair domination by the pipe owners/ telecom operators.
- The operator justifies his revenue share with 3 costs – cost of building the market (i.e., license fees and shares as well as capex/opex etc); cost of usage of the infrastructure and finally cost of billing and collection. the first and second cost (ie, cost of building and cost of usage) are one and the same thing and a 1 minute voice call price at Rs. 1 includes cost of hardware and opex and usage charge. Similarly, his data/access charge should be on the same basis.
- The consumer should have the option to take a bundled price (where s/he pays one price for both content and delivery) goods for a la carte

occasional users, or a separate/unbundled price where consumers pay for bandwidth separately from the content (useful for more regular users). This will also force transparency and clarity and the mentioning of a price point that the Regulatory Authority (within its existing remit) will be able to regulate, like voice charges.

- Content suppliers/aggregators/tech companies should be given the freedom to either use or not use the operators billing and collection mechanisms. If alternate payment mechanisms are allowed, automatically the cost of this service will come down (outside as well as through the operator) and benefit us and the end user.

Step 3: Suggested Sharing Models

The Mobile VAS industry is not keen on regulation of minutest details because of the following reasons: a) difficulty in implementation b) too tight a regulation would kill innovation. However, if the first two steps do not work out there would be the need for more detailed revenue share regulation. Towards this, two models of Minimum Revenue Share are suggested below. It may be noted that given below are just models on the basis of which minimum revenue to various stakeholders in the value chain can be guaranteed. This would, while protecting the VAS industry from being stifled, would help innovations and bilateral negotiations based on perceived value of the product and services.

The models below are based on the following assumptions:

All telecom operators in India today have implemented (or are capable of implementing) billing and charging the two legs of "VAS request" and "VAS delivery" separately and differentially. A logical way to look at charging the end-user for VAS would be to:-

1. Charge for generating the VAS request (over SMS, GPRS or Voice) from the end user
2. Charge for delivering the VAS (Content) to the end user over Data (SMS MT, GPRS session) or Voice (IVR/Video) channel

Next step would be to arrive at a fair distribution of the end user price – between the players of the value chain. There cannot be a single sweeping 80:20 formula which will work here for all categories of VAS. A better way to look at it would be to define a revenue share matrix, broadly as shown below:

Model I						
	SMS		**GPRS**		**Voice/Video**	
	Access	**Content**	**Access**	**Content**	**Call**	**Content**
On-Deck con						
Telecom operator	90%	40%	90%	40%	50%	50%
Aggregator/ enabler	10%	20%	10%	20%	25%	25%
Publisher/ provider	0%	40%	0%	40%	25%	25%
Off-Deck content						
Telecom operator	50%	20%	40%	25%	25%	25%
Aggregator/ enabler	10%	20%	20%	25%	25%	25%
Publisher/ provider	40%	60%	20%	50%	50%	50%

Model 2						
	SMS		GPRS		Voice/Video	
	Access	Content	Access	Content	Call @	Subscp
Basic						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Service Provider - SP #	25%	25%	25%	25%	25%	25%
On-Deck content - O						
Telecom operator (SP)	**75%**	**50%**	**75%**	**50%**	**50%**	**50%**
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Off-Deck content - A						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler (SP)	**50%**	**40%**	**50%**	**40%**	**50%**	**50%**
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Off-Deck content - C						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor (SP)	**25%**	**60%**	**25%**	**60%**	**50%**	**50%**
# Service Provider in this context implies that player in the Value Chain who brands and markets the service to the end-user						
@ Call session would typically include both Access and Delivery						

Explanatory notes to the Models

On-Deck content: VAS provided on the Carrier's Portal under their own branding – like Reliance R-World, BSNL CellOne, Airtel Live, Planet Hutch, etc (where the Carrier carries the Marketing responsibility)

Off-Deck content: VAS provided by 3rd Party Service Providers under their own branding – like Indiatimes, Yahoo, Mauj, etc (where the Carrier acts as a channel of access, delivery and end-user billing & collection only)

Players in the Value Chain

1. Telecom Operator – provides the access network and end-user billing & collection in the provision of VAS. In an On-deck model, it also acts as a VAS Provider (with the marketing & branding role). Examples are Airtel, Hutch, Reliance, BSNL, etc.
2. VAS Aggregator/ Enabler – provides the technology layer between the telecom network and the Content Publisher/ Provider. This technology layer often includes a VAS platform, Mobile Application development & hosting, MIS & reporting tools, operator billing, collection

& payment settlement engine. Examples are OnMobile, ACL Wireless, etc.

3. Content Publisher/ Provider – provides the core content which drives the VAS – which may be owned or sourced by it. In an Off-deck model, it also acts as a VAS Provider (with the marketing & branding role). Examples are Indiatimes, Mauj, Hungama, etc.

Step 4: Payments, MIS and Reconciliation:

MIS, Reconciliation and timely payment form the end of the business cycle if the issue of access is the beginning. It is of crucial importance that reconciliation and payments happen in a time bound manner and are based on commonly agreed parameters. This section highlights some of the issues that the MVAS industry faces regarding MIS, reconciliation and payment to highlight the inequities of the current system. However, IAMAI goes not envisage any regulation by the regulatory authority on this issue. It is an issue internal to the industry which can be solved by the industry coming together to either to make the Telecom operators accept a common third party audit OR to set up a mediatory industry body.

It is very important from MVAS players perspective that whole process of MIS, reconciliation and payment get completed within reasonable period at the end of every month. Non-completion of the process in time by mobile operators is very unhealthy for the growth of mobile VAS. Because of delay in MIS and reconciliation process, MVAS players are not able to report download numbers to its content partners which in turn deteriorates trust of content partners in MVAS players.

Three major issues that arise with regards to payments, MIS and reconciliation with suggested remedies are given below:

Issue #1>. Traffic reconciliation & payment settlement cycle is too long (average cycle is upwards of 3 months, and in one or two cases it goes over 6 months)

While the traffic reconciliation process happens (and often we may find that the operator is not able to complete the reconciliation process in an agreed timeline), the Operator needs to pay the VAS vendor within 21 days (payment lead time that operators offer to their own subscribers) from the date of Invoice based on the lower of the two figures (Operator MIS and VAS Vendor MIS).

Upon completion of the reconciliation process (say within 30 days from the date of invoice), the difference should be settled in the next payment cycle. When the Operator intends to tighten the payment cycle it can surely do so. We see that happening when it comes to collecting their dues from VAS vendors for sending SMS Alerts using their PUSH pipes.

Issue #2>. Traffic reconciliation process is dictated by the Operators - through contracts which provide little or no recourse to the VAS vendor for challenging the MIS figures of the Operator.

Any traffic reconciliation process will always throw up differences between the two parties. It may be acceptable to most VAS Vendors to get paid on Operator MIS as long as the MIS difference is within 1%-2% levels. One can handle such differences by providing for it in the P&L. However, this issue becomes serious when the VAS vendors are compelled to provide for Bad debts at the end of the FY in the region of 5%+. Some operator contracts do not allow any reconciliation process till the difference in MIS is up to 5%. Others do not even provide for any formal scope for reconciliation in the contract - compelling the VAS vendor to accept the operator MIS figures (take or leave it). I guess, as an industry, we could pitch for a situation where the Contracts should allow for a formal process of reconciliation of MIS for difference above 2% - including the right of both parties to seek arbitration proceedings, if necessary.

Issue #3>. Transparency in MIS & payment settlement between the VAS vendor and Content Publisher is an issue. VAS vendors are not able to provide timely MIS to the Content Suppliers. Sometimes large Content Publishers/Licensors like Indian Railways or some big Music Labels insist on being paid on their Traffic figures and within their payment cycles - which leads to time & amount mismatch very often. In some cases, this can lead to a loss-making proposition for the VAS vendor – as it gets hit from both sides.

Once the VAS vendors know that the "business-as-usual" downside is 2% – they could prepare their Content Suppliers for creating a Provision for this difference in their P&L. This will allow the Content Suppliers to book their mobile content download revenues at the end of the month -based on the Online MIS provided by the VAS vendor -and accepting an adjusted revenue collection later on. This way, the VAS vendor will have no problems in sharing On-line MIS with the Content Supplier – which is a critical need of the Content Publishers/ Licensors.

4. POSITION PAPER ON: INCENTIVES TO ANGEL INVESTORS AND STOCK OPTIONS TO PROMOTERS

STOCK OPTIONS FOR THE PROMOTORS / INCENTIVES FOR ANGEL INVESTOR

1. STOCK OPTIONS FOR THE PROMOTORS

(A) SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI):

Current Provisions:

Vide SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (applicable to the listed companies) an employee who is a promoter or belongs to the promoter group shall not be eligible to participate in stock option/ purchase scheme(s).

Recommendation:

The aforesaid provision in the guidelines should be deleted or it should be clarified that this provision will not be applicable to companies engaged in knowledge based sectors such as Information Technology, ITES, internet portals, bio-technology, BPO, KPO, etc.

(B) MOF / RBI

Anomalies in pricing formula for determining exercise price of stock options – unlisted companies in knowledge based sectors whose ADRs/GDRs are listed overseas being unfairly discriminated against.

Current Provisions:

Vide Press note No. F.17/2/97-NRI dated 23rd June, 1998 issued by Ministry of Finance, the maximum discount at which the ADR Linked stock options can be issued is 10% to the market price at the time of issue of stock options.

It has been subsequently clarified by Reserve Bank of India vide its circular no. RBI/2004-05/202, A.P. (DIR Series) Circular No. 14 dated October 01, 2004 that this provision will apply only to unlisted companies in knowledge based sector. Listed companies in the knowledge based sector will be governed by SEBI (Employee Stock Option and Stock Purchase Scheme) Guidelines, 1999.

It may be noted that under the SEBI (Employee Stock Option and Stock Purchase Scheme) Guidelines, 1999 there is no restriction on determining the exercise price of a stock option. In other words such companies are free to issue stock options at a discount greater than 10% to the market price at the time of issue of stock options. On the other hand unlisted companies can issue ADR linked stock options at a maximum discount of 10%. This is unfair and discriminatory.

Recommendation:

The said ceiling of 10% be removed and unlisted companies should be treated at par with listed companies.

2. INCENTIVES FOR ANGEL INVESTOR

Start up ventures in the internet space in India are typically started by talented tech entrepreneurs with bright ideas and an indomitable zeal to harness the power of the net to bring knowledge, information and communication to within reach of the masses. In the initial stages of such ventures paucity of capital often acts as a serious deterrent in getting projects off the ground. If the Govt were to encourage investments in such early stage by way of fiscal benefits to potential investors in internet start-ups (often called seed or angel investors) who are willing to support these entrepreneurs during their critical initial phase of their business life cycle this would go a long way in giving a much needed fillip to this nascent industry.

Recommendation:

Potential tax benefits could be in the form of deduction of capital invested by potential investors (including individuals, HUFs, partnership firms, companies, etc.) in start-up internet ventures from their total income. The benefits are summarized as under:

- Amounts invested to be allowed as deductible from the income of the tax payer with threshold limits as currently available under Section 80 C of the Income Tax Act;
- Alternatively, a specified percentage of the amount invested could be availed as a deduction which could be restricted to the gross total income of the tax payer. This would be in line with the provision of Section 80-G of the Act.

The benefits could either be incorporated under Section 10, chapter VI-A of the Act or could form part of Chapter XII-F which correlates to Section 115U of the Act.

5. PAPER ON: E-SPORTS IN INDIA

A paper on

THE ROLE OF E-SPORTS IN INDIA

E-sports or computer games as they are generally known have been in India for the last decade or so and have grown by way of gaming competitions such as the World Cyber Games. According to some estimates there are over a hundred thousand committed "gamers" among India's youth. However, they are still not recognized as a part of mainstream sports categories. In fact, computer games still has a lot of stigma attached to it in India which affects that way parents and law enforcement authorities perceive computer gaming in India.

However, in many countries the thrust for computer use and broadband penetration has come from this young group of gamers who have been recognized and an e-infrastructure created for the computer gaming industry to flourish in terms of investments in broadband, a liberal regime with the cyber cafes and a host of other measures. Most important, in many of these countries, computer gaming has been recognized a form of sports and the attendant recognition given to it.

Some of the benefits that the computer gaming industry can bring to India are given below. The biggest benefit would be two fold: a) accelerated adoption of internet and broadband among the youth b) conversion of cyber cafes into gaming zones. We at IAMAI, therefore feel that recognition of computer games as a form of sports by the government will go a long way in providing it the necessary thrust and encouragement. India could not only then look forward to a faster adoption of internet by the incoming generations, but also successfully host large computer gaming events and put itself even more firmly on the map of e-sports as well as a computer savvy country.

In the countries where e-sports enjoy a large following, they have shown the following benefits to the society and economy and indeed to the nation as a whole:

1. E-sports are the best way to introduce youngsters to computers and information technology. This is already evident in upwardly mobile urban families in India where a 35 year old mother and father learn computers from their 9-10 year old son or daughter.

   There is no doubt that e-sports can play a huge role in motivating young people from a country to explore technology more than they do without existence of e-sports.
2. E-sports help youngsters learn cognitive skills as well as enhance their motor skills. In fact, the US army has decided to sponsor a 'national gaming' area targeting recruitments in the 17-

24 age group in Aril 2007 – this recognizes the special skills that gamers have when in comes to candidacy of armed forces.

3. E-sports have the capability to build a whole new economy around itself. They not only help in PC penetration as PC is a pre-requisite for e-sports, but it also creates employment for thousands through cyber-cafes, service professionals, gaming-event professional.
4. One example of how e-sport helps a nation's economy is South Korea where there are over 25,000 PC Baangs (internet cafes) employing hundreds of thousand of people directly and indirectly. These cafes are mostly dependant of gaming as a source of revenues. Today, Korea is known as one of the most IT savvy nations on the planet.

   How did this come about? In 1995, the South Korean government made what must rank as one of the most shrewd and far-sighted investments in business history. It spent big on a nationwide high-capacity broadband network that any telecom operator could offer service on, and offered subsidies so that 45 million Koreans could buy cheap PC's. Cost: a mere $1.5 billion.
5. E-sports has played a big role in the tourism industry in nations like South Korea, Hong Kong, USA etc. Large gaming festivals such as the e-sports Cyber Olympics of World Cyber Games have created youth festival attracting thousands to these countries bringing in valuable foreign currency. These events have also helped these countries get recognition as being technologically advanced.

Gamers have shown the following unique traits in different nations across the world including India:

1. Gamers are among some of the best team-workers in the society. They co-ordinate and communicate better than most individuals not exposed and are better at taking on a collective responsibility. Working in a team, gamers have demonstrated that they can use the best in an individual and complement his shortcomings through strengths of the other members.
2. Gamers have huge amount of perseverance – both as individuals and in a team as well. They do not get tired of pursuing their targets – a quality admired by every organization today.
3. Individuals who excel at gaming are also highly creative thinkers who find newer and better ways of doing things.
4. Gamers are seen to be early adopter of technology compared to the rest of the society – which helps in penetration and adopters of technology in a society not to mention the scientific attitude that gets inculcated in people surrounding them.

6. IAMAI ACCREDITATION POLICY

GUIDELINES FOR ACCREDITATION AND CREDIT POLICY FOR DIGITAL AGENCIES

Preamble:

Credit policy to agencies and timely recovery of online advertisement payment is an issue of concern with the online publishers. While the support of agencies are critical for expanding the size of online advertisement, it was felt necessary to have some common guidelines governing extension of credit and accreditation of agencies.

IAMAI Accreditation:

1. All digital agencies, digital businesses of an agency and others have to be accredited to the IAMAI
2. All members of IAMAI would be automatically accredited
3. All other agencies would have to approach IAMAI for accreditation
4. The following process would apply for accreditation:

a. An agency will approach IAMAI with the request providing information on the profile of the business or its promoters; current and future estimates of business and current clients.
b. The request will be vetted by the Online Publishers' Committee at IAMAI and its decision duly notified to the agency
c. There will be no fee for accreditation

d. No publisher would extend credit to a non-accredited agency. Accreditation from no other agency will be applicable for advertising with online publishers

5. A one-month window would be given to all agencies from the date of announcement of these guidelines to accredit with IAMAI

6. All accredited agencies to agree to the following guidelines

7. A confidential list of advertisers who default regularly will be prepared and shared with all the accredited agencies and online publishers.

Credit Line by Online Publishers:

1. Online publishers would extend a 60 day credit line to all agencies who are members of IAMAI and/or accredited by IAMAI
2. The 60 day period for payment would begin from the date of invoice
3. On the expiry of 60 days, a 30 day extension would be given to the media buying agency for any bilateral negotiation regarding payment
4. On expiry of the 30 day extension and upon no-receipt of payment, the case would be passed on to the Online Publishers' Committee of IAMAI.
5. All billing amounts would be based on the publishers' server report irrespective of any communications to the contrary
6. In the event of a notice of stop service, the agencies will be responsible for payment related to ongoing campaigns on a pro rata basis.
7. Relationship between online publishers and direct advertisers will be outside the purview of the IAMAI process
8. While an agency may be held responsible for payment none of the affiliated publishers will ever accept advertisements from the defaulting advertiser till the agency has been paid.

IAMAI Process:

1. All payment due cases over 90 days would be reported to the IAMAI committee at the monthly meeting of the committee with supporting documents
2. For cases that are flagged by online publishers, IAMAI would send out a letter to the media buying agency on 91st day requesting for an explanation for non-payment and stating that if the payment is not received within 30 day of this letter all campaigns by the concerned agency will be stopped
3. The 30 day period between the notice and final payment date would be used by the IAMAI committee as well as the agency to sort out any issue regarding payment. If need be this would include and arbitration process.

a. Two members of the committee [excluding the affected publisher] would be nominated by the committee to arbitrate with nominated representatives of the agency

b. The result of the arbitration would be binding on the publisher as well as the agency

c. The arbitration process would have to be complete within 15 days of the notice being served [i.e. 90 + 15 = 105 days]

Code of Conduct IAMAI Committee:

1. IAMAI online publishers' committee will comprise all publishers who are IAMAI members [membership of IAMAI is a pre-condition to be a part of this committee]
2. All members of the committee would be required to give a written undertaking that they will abide by all the terms and conditions of the guidelines in letter and spirit.
3. Violations of the agreement would automatically disqualify a member from the committee and from the membership of IAMAI
4. If for any reason, a member is not able to abide by the terms of agreement, it must explain to the committee why it is unable to do so and seek the committee's permission
5. The committee would meet once a month and look into the various cases and advice the IAMAI secretariat on the action to be taken on each of these cases. This advice would be based on the guidelines set up above.

6. In case of any rules not having been observed in the execution of the contract with the agency, or in case a bilateral agreement is reached between a publishers and an agency post 90 days, IAMAI committee will not be in a position to take up the case for resolution and the member may invite disciplinary action by the committee.

7. LIST OF MEMBERS AS ON 31 MARCH 2007

1. ACL Wireless Ltd.
2. Avenues India Pvt Ltd.
3. BC Web Wise Pvt. Ltd.
4. BharatMatrimony.com Pvt Ltd.
5. Cleartrip Travel Services Pvt Ltd.
6. Communicate 2.
7. Connecturf India Pvt. Ltd.
8. Ebay India Pvt Ltd.
9. e-Eighteen.com Ltd.
10. FutureBazaar India Limited.
11. Google Online India (P) Ltd.
12. Group M Media India Pvt Ltd.
13. HT Media Ltd.
14. i2i Telesource Pvt Ltd.
15. IndiaMart InterMesh Ltd.
16. Info Edge(I)Pvt. Ltd.
17. Interactive Avenues Marketing Solutions Pvt Ltd.
18. IRIS Business Services(India)Pvt Ltd.
19. ITZ Cash Card Ltd.
20. LogNBuy.com India Pvt Ltd.
21. Makemytrip (India) Pvt Ltd.
22. Malayala Manorama Company Ltd.
23. Microsoft Corporation India Pvt Ltd.
24. MIH Web India Pvt Ltd.
25. Novator India Pvt Ltd.
26. People Group.
27. Pinstorm Technologies Pvt Ltd.
28. Quasar Media Pvt Ltd.
29. Rediff.Com India Limited.
30. Sahara Net Corp. Ltd.
31. Sify Ltd.
32. Star India Pvt. Ltd
33. Starcom Worldwide.
34. Times Internet Ltd.
35. Timesjobs.com.
36. TimesofMoney Ltd.
37. Travelguru.
38. Sequoia Capital Partners India.
39. Yahoo Web Services India Pvt Ltd.
40. Yatra Online Pvt. Ltd.
41. Yo4Ya Digital Private Limited.
42. Zapak Digital Entertainment Ltd.

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