

# India Business Law Journal

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May 2009

Volume 2, Issue 10



## Making your mark

Smart strategies to protect and enhance your IP portfolio



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# Prepare for a new era

**Emerging from the downturn is just the beginning. Corporates and their legal advisers will need to raise their game or flounder. But how?**

**W**ith the end of the era of “easy growth” comes renewed focus on devising and implementing skilful business strategies. In this task, the lawyer – in-house or private practitioner – has a crucial role to play. How the legal profession can help clients squeeze more value out of existing assets, and cut costs while they’re about it, is the theme of this month’s **Cover story** (*Making your mark*, page 17). *India Business Law Journal*’s editor, Vandana Chatlani, explores how IP owners with exposure to India can maximize – as well as better protect – their intangible assets within the confines of tough budgetary constraints.

Her findings deserve careful scrutiny, not only on the part of our regular readers, but also the thousands of delegates in attendance at the International Trademark Association’s (INTA) annual meeting in Seattle, where this issue of *India Business Law Journal* will enjoy special circulation.

Chatlani discovers that through the careful deployment of “smart strategies”, such as conducting strategic IP reviews, abandoning non-performing assets, reducing registrations to a “need-to-register” basis and developing new approaches to innovation, companies can not only maintain acceptable levels of protection, but also use the downturn as an opportunity to increase the value of their IP portfolios. As Rahul Chaudhry of Lall Lahiri & Salhotra points out (page 22), now may even be an opportune moment to acquire new intellectual assets at bargain prices.

While many in-house legal departments are under pressure to rein in their spending, the threats facing their intellectual assets are as great as ever. The scale of these challenges is forcefully illustrated by Ameet Datta, a partner at Luthra & Luthra, in a case study of India’s film industry (page 24). Datta’s analysis of Bollywood “remakes” of Hollywood classics reveals a trend that has worrying implications for all IP owners: the fragile dividing lines between inspiration, imitation and infringement are fast-eroding.

As if to prove the point that the unskilful stewardship of intellectual assets can be as damaging as management blunders in more “concrete” business domains, this month’s **What’s the deal?** (page 41) examines a serious pitfall that can trip up US-based IP owners who outsource their patent drafting. With attractive cost savings on offer, patent outsourcing has boomed in recent years, with India picking up the lion’s

share of the work. But as distinguished commentator Peter Ludwig cautions, those who engage in the practice may find themselves on the wrong side of US export laws. The penalties are severe: in certain cases, offenders may permanently lose the right to register their technology.

Last month, *India Business Law Journal* examined the effects of the financial crisis on international law firms’ India strategies. This month we turn our attention to the domestic market and ask how Indian law firms are weathering the storm (*Survival of the fittest*, page 28).

Ironically, the traditional lack of specialization among Indian lawyers is standing many firms in good stead, giving them the flexibility to reassign lawyers from languishing practice areas to more active ones. “While some law firms have downsized, I doubt there will be any closures or significant consolidation,” says the managing partner of one law firm.

The timely recovery of bills has become a thorny issue for many in the profession, but in terms of workload, several firms report that advisories on restructuring and refinancing are compensating for fall-offs in real estate work and conventional commercial practice.

The booming trade in restructuring and refinancing comes under scrutiny in another of our feature articles this month (*Rebuilding corporate India*, page 35). Advising on negotiations with cash-strapped banks and helping client companies take advantage of lower equity prices to buy back their shares are no longer esoteric lines of work. Indeed, grappling with distressed asset and debt portfolios now enjoys the same high status in legal circles as that previously reserved for flagship cross-border M&A deals.

Another field of legal practice that has taken on greater significance in recent

months is dispute resolution. Writing in this month’s *Vantage point* (*See you in court*, page 27), Aditya Birla’s Sonal Godhwani and Devangee Ganatra weigh up the relative merits of litigation and alternative dispute resolution options. While the appeal of arbitration continues to grow, our commentators contend that litigation is not to be ruled out, particularly when disputes involve state-owned entities.

As economies and companies compete for scarce capital, lax enforcement of corporate ethics and anti-corruption rules will drive domestic and international investors away. Yet as the recent Satyam debacle illustrates, India’s lack of an effective framework to facilitate insiders blowing the whistle on malfeasance by their employers is a woeful lacuna in the country’s legal architecture. This month’s **Intelligence report** (*Raising the alarm*, page 45) details just how far removed from international best practice India is in the crucial legal arena of enhancing corporate transparency and accountability.

The sorry saga – and tragic fates – of the few brave souls who have dared to draw back the veil on corporate misdeeds speak for themselves. The injustices and legal shortcomings are all too evident. Less immediately visible is the lasting damage done to India’s international competitiveness. ■



## INTELLECTUAL PROPERTY

**Don't stop innovating****Dear Madam,**

I greatly enjoyed reading your article on the varied responses of IP lawyers to the economic downturn (*Protecting hidden value*, *IBLJ*, volume 2, issue 9).

I couldn't agree more with the sentiment that a blind reduction of costs by cutting down on IP filings, etc., is really short sighted and not always the best answer. Rather, companies should focus on innovative cost cutting methods.

For example, in so far as large entertainment companies are concerned, low cost distribution models would help cut costs and garner more revenues.

There is a huge place for innovation in all of this and companies ought to use the internet and web 2.0 in creative ways to help lower costs but sell more.

Similarly, for "big pharma", the greatest worry has been the escalating costs of drug discovery. This is therefore the perfect time to try and figure out alternative R&D

methodologies that costs less, and even to consider alternative approaches to innovation.

I think the downturn presents an excellent opportunity for companies to introspect and move beyond their conservative shackles.

Your article rightly stresses that the companies that did well during the last economic slump were the ones that refused to give up on "innovation".

We must appreciate that innovative financial instruments, smothered with layers of greed and short sightedness, were what got us into this mess in the first place. And it is innovation alone that will lift us out of it.

**Shamnad Basheer**  
**Ministry of HRD**  
**Professor of IP Law**  
**National University of**  
**Juridical Sciences**  
**Kolkata**

**Jumping on the bandwagon****Dear Madam,**

I read with interest the article carried in the April issue of your

magazine (*Protecting hidden value*) on the challenges posed by the economic downturn and the comments offered by the legal fraternity.

My perspective to the whole issue is at a slight variance, especially considering the fact that when our firm was "Indianized" in 1973, intellectual property, or rather industrial property as it was then known, was not considered very newsworthy among industry and practitioners, particularly in India.

However, driven by the combination of innovation, commercialization and globalization on an ever increasing scale, intellectual property has come into its own over the last three decades and today is of key interest to lawyers and businesses alike.

Unsurprisingly, then, it is a bandwagon on which many practitioners and general practice firms, quite a few of whom lack the necessary experience, expertise or knowhow, have jumped on to have a share of the pie.

That the downturn will pare revenues somewhat is a reality and some creative techniques to minimize impact would have to be initiated.

However, as I see it, the impact on firms with years of experience, expertise and long standing clients would be contained as the clients they service are companies with a vision.

The heat is likely to be faced by setups handling small portfolios and I would not be surprised if many of them are forced to shut down or merge.

At this juncture, keeping in mind the potential for growth in India, I feel it is a market which is simply too important to overlook. Further, issues of downsizing, discounting, poaching of professionals, are, in my opinion, a myopic view of the whole situation.

Superior service is always in demand and as long as a firm consistently offers quality and reliability, there would not be any significant downward movement in business.

I am quite sure that April 2010 will tell a different story and all these discussions on the downturn and strategies to counter the same would be a thing of the past.

**Ashwin Julka**  
**Partner**  
**Remfry & Sagar**  
**Gurgaon**

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**Observations?**  
**Feedback?**

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# India queues up to cast its vote

**T**he five-phase voting process of India's general election, in which roughly 714 million are eligible to cast their ballots, began on 16 April and will culminate on 13 May. The new government will be announced on 16 May.

The first phase of elections, held across 124 constituencies, was disrupted in Chattisgarh, Bihar, Orissa, Jharkand and Maharashtra by Maoist insurgents, who blocked roads leading to voting stations, set polling booths alight and engaged in skirmishes with electoral officials. A total of 17 election officials and police officers are reported to have died in the clashes.

Despite the rocky start, voting has proceeded smoothly. However, reports point to voter apathy in Mumbai, where only 44% turned out, with security a major issue following last year's terrorist attacks in the city. "The average voter, as gauged by the turnout percentage, has become cynical and indifferent to politicians," said Vijaya Sampath, group general counsel and company secretary at Bharti Enterprises. "There is a general sense of distrust."

According to Bijesh Thakker, managing partner at Thakker & Thakker, major election issues include the threat of terrorism; the economic slowdown; infrastructure development; congestion in the cities; quality of life and employment conditions in semi-urban and rural areas; and the "humungous waste of public money and infrastructure by politicians".

However, the fundamental concerns of the majority of voters centre around access to basic necessities, poverty reduction, education and infrastructure. "As I see it, key concerns are highly localized, with the majority of voters



divided down caste or religious lines," said Sampath.

Most observers believe it is premature to predict the election's outcome, especially since a coalition is expected to be formed, making it difficult to know what social and economic policies are likely to be promoted. "Given that India has got into coalition politics, it is not easy to support any single party," said Mysore Prasanna, group executive president (legal) at Aditya Birla.

Prasanna added: "From a legal perspective, I do hope the globalization of the legal profession will persuade the government to open up the legal profession in India to foreign law firms, allowing them to open offices in India, but not allowing them to practise in the courts."

Lalit Bhasin, president of the Society of Indian Law Firms, takes a different

view: "There would be no reversal of economic policies ... whichever alliance comes to power. From the legal perspective no major changes are expected. Foreign law firms would still not be permitted."

Sumeet Kachwaha, managing partner at Kachwaha & Partners, sees non-interference as a crucial quality for the new government. "A short history of India's growth story will demonstrate that least governance is best governance," he said. "I believe the common man would not mind the outcome of the elections so long as it leads to stability more than anything else. An unstable coalition comprising of multifarious, heterogeneous parties is vulnerable to manipulation and hampers the country's forward march. I hope to see a stable and secure government at the helm of affairs."

## MERGERS AND ACQUISITIONS

### Tech Mahindra wins bid for Satyam

Indian IT services provider Tech Mahindra, an outsourcing group partly owned by British Telecom of the UK, has won a controlling stake in Satyam Computer Services. Satyam is India's fourth largest outsourcing company

and since January has been embroiled in one of the biggest corporate scandals in the nation's history.

During the auction, which was conducted in a luxury hotel in Mumbai on 13 April, very little financial information was offered about the current state of Satyam, and no reassurances were given regarding the likely outcome of the class action lawsuits that have been launched by US law firms and financial institutions against the troubled company.

Tech Mahindra, in which British

Telecom owns a 31% stake, put in the highest bid during the sale, which was initiated by Satyam's government-appointed board. It acquired a 31% stake in the company, through its subsidiary Venturbay Consultants, for US\$351 million.

Tech Mahindra chairman Anand Mahindra said in a press release: "I would like to welcome the Satyam family to the Mahindra Group and thank all its stakeholders for standing by the company during this difficult period. The Mahindra Group is

recognized for its resilience, tenacity and focus on customer centricity, and together with Satyam associates, we will work to quickly reinforce confidence in the company and build a better future.”

The managing director and CEO of Tech Mahindra, Vineet Nayyar, added: “We would like to reassure stakeholders that priority focus is being given to retaining critical customer-facing resources, so that the customer experience continues undisturbed. This is also a new beginning for Satyam – and for Tech Mahindra. Both companies will now have access to enhanced talent and scale to compete in the global market.”

The Company Law Board, an independent regulator, must approve the sale before placing a public tender for an additional 20% of Satyam.

Delhi-based P&A Law Offices is advising Tech Mahindra on Indian aspects of the purchase while Jones Day is acting as US legal counsel. Indian legal counsel to Satyam is being provided by Amarchand Mangaldas, while Latham & Watkins is representing the outsourcing company in the US.

## Ingress seals joint venture with Mayur

Ingress Corporation, a Malaysian automotive components manufacturing company, has signed a joint venture agreement with India’s Mayur Industries to design, develop, manufacture, sell and distribute automotive parts from a base in Gurgaon. Mayur, which supplies passenger and commercial vehicle manufacturers in India, will collaborate in the project with Ingress Engineering, which is wholly owned by Ingress Corporation.

In a news release, Ingress said the joint venture paves the way for the company to enter the Indian market, consistent with its strategy to expand its presence in Asia and more effectively tap regional markets, rationalize its operation and improve overall competitiveness.

Ingress Engineering will hold a 40% stake in the new company, to be known as Ingress Mayur Auto Ventures, while Mayur will own the remaining 60%. The deal is subject to the approval of India’s Foreign Investment Promotion Board.

Azmi & Associates acted as Malaysian counsel for Ingress Corporation.

## Pharma giants merge HIV divisions

Two of the world’s largest pharmaceutical groups have agreed to create a new, jointly controlled company to develop and sell their combined portfolios of HIV medicines.

On 16 April, GlaxoSmithKline (GSK) and Pfizer announced that between them they would contribute 11 market-leading therapies including Combivir, Kivexa and Selzentry/Celsentri, along with an additional six medicines now being tested on patients (including four compounds in phase II development).

The new company will be launched with initial gross assets of around

US\$380 million, annual sales of US\$2.4 billion, operating profits of US\$1.3 billion and a 19% market share. GSK will initially hold an 85% stake in the new company, with Pfizer holding the remaining 15%.

The two companies have agreed on a structure for the adjustment of their equity interests, subject to specific sales and regulatory milestones being achieved. The transaction is expected to close in the fourth quarter of 2009.

Allen & Overy is advising Pfizer on the landmark business venture, while Slaughter and May is representing GSK. Morgan Lewis & Bockius and Clifford Chance are also advising Pfizer on antitrust issues, with Jones Day providing advice on the tax aspects of the deal.

### INTELLECTUAL PROPERTY

## Now anyone can play the IP game

A constant refrain of India’s IP lawyers is the need to spread awareness about intellectual property – hardly an easy task when an IP-illiterate population lives side-by-side with opportunistic pirates.

Pravin Anand, managing partner of Anand and Anand, hopes to change that with the launch of Anaryst, a board game that aims to teach its players the basic principles of intellectual property.

Targeted at audiences aged 14 and above, Anaryst is played using a roll-and-move format. The winner of the game is

the one who first acquires all the intellectual properties relating to one of four industries – automotive, pharmaceutical, food and beverages and information technology – without going bankrupt.

The game took two years and considerable research to develop. “I read a lot on how board games work,” Anand told *India Business Law Journal*. “The game must not finish too quickly and at the same time cannot drag on for too long.”

Marketing of Anaryst commenced with a competition held on 27 April at Salwan Public School. The game is expected to hit stores in India over the next three months and will cost around Rs500 (US\$10); an online version is also planned.

Further awareness-raising initiatives organized by Anand include seminars around IP and spirituality, an essay competition and a play titled *Brain Child*.



Pravin Anand (right) enjoys a game of Anaryst

## LEX Nexus loses name in IP battle

Mumbai-based law firm LEX Nexus has rebranded itself and will now be known as Brus Chambers, a name representing the four main partners of the firm (Binita Hathi, Rina Hathi, Uttam Hathi and Shrikant Hathi).

Established in 1992 as Hathi & Partners, the firm changed its name to LEX Nexus in 2003. Its core areas of practice include corporate and commercial work; M&A; admiralty, shipping and maritime; projects; oil, gas and energy; arbitration and commercial litigation; real estate and property insurance; banking and finance; and capital markets.

The rebranding was driven by a conflict between the firm and Reed Elsevier Properties, an international publishing house that owns and controls content provider LexisNexis.

Rahul Chaudhry, a partner at Lall Lahiri & Salhotra and counsel for Reed Elsevier, told *India Business Law Journal* that Delhi High Court, observing the prominent similarity between the two trademarks, on 27 April passed an ex-parte interim injunction against the law firm, restraining it from using the trademark LEX Nexus.

The court noted that the LexisNexis trademark is extremely well-known and closely connected with the legal field, and that the publications, online databases and other services provided under the trademark are highly regarded.

The court also observed that LexisNexis was the first to adopt its mark and that LEX Nexus had continued to use the infringing trademark subsequent to an opposition issued against its registration.

"We were informed by Reed Elsevier Properties' New Delhi attorney that they obtained an ex-parte order from the court," Brus Chambers' partner Shrikant Hathi told *India Business Law Journal*. "LEX Nexus immediately acted on the letter and has discontinued the usage of name and shifted to Brus Chambers in compliance of the court order."

Explaining that his firm had filed an application with the Trade Marks Registry that was accepted for Legal and Litigation Service under Class 42 in October 2003, Hathi said: "LexisNexis filed their mark application much after LEX Nexus filed

their application before the Trade Marks Registry. LEX Nexus had chosen not to oppose LexisNexis' mark as our firm is not concerned with their business, but LexisNexis chose to oppose our application." Reed Elsevier's opposition to the trademark registration was pending before the Trade Marks Registry in Mumbai at the time of writing.

"Reed Elsevier is very well aware that proceedings are pending before the Trade Marks Registry, but they have still gone behind its back and instituted simultaneous proceedings in the Delhi High Court and obtained an ex-parte order," lamented Hathi.

"Do they think that India is nothing more than a 'Banana Republic' and that a judicial authority, be it quasi or otherwise, established under a central or state act, given specific powers and assigned specific duties, can be thus sidelined and courts hoodwinked by distorting facts?"

According to Hathi, the firm's rebranding process was already underway prior to the conflict. The choice of the name Brus Chambers aims for international appeal.

"It was this unexpected sneak attack which precipitated us in pushing and fast forwarding the timeline," he said.

"It is unlikely that we will revert from Brus Chambers, but as a matter of principle for us and the legal fraternity we will litigate so a wrong precedent is not created."

## GSK, Pfizer patents rejected

Delhi Patent Office has turned down patent applications submitted by GlaxoSmithKline (for its anti-diabetic drug Avandia) and by Pfizer (for its cholesterol-lowering drug Caduet) that, if granted, would have ensured no other company could produce the drugs within the next two decades without the patent-holders' consent. The applications failed to meet the criterion of being new as well as being more useful than existing compounds. The application for Avandia (rosiglitazone) was refused because it failed to show any "enhanced efficacy over the existing compound", while that for Caduet was rejected due to the lack of an "inventive step".

The patent office said that GlaxoSmithKline could not establish that Avandia is "better in terms of efficacy with respect to its parent compound". A number of domestic companies, such as Dr Reddy's Laboratories, Torrent Pharmaceuticals and Sun Pharmaceuticals, manufacture generic versions of rosiglitazone in India.

The patent office accepted the pre-grant opposition that had been raised by Ahmedabad-based Torrent Pharmaceuticals in rejecting a patent for Caduet, which combines Pfizer's two existing drugs Norvasc (amlodipine besylate) and Lipitor (atorvastatin calcium).

## Doordarshan falls foul of the law

On 31 March, India's state-run television broadcaster Doordarshan was found guilty of copyright infringement by Bombay High Court, which imposed substantive damages upon the broadcaster and other defendants, ordering it to pay documentary film-maker Anand Patwardhan Rs1 million (around US\$20,000) for infringing his copyright in the 1975 film *Waves of Revolution*.

Doordarshan was accused of using unauthorized footage from Patwardhan's film, which was based on the Bihar movement led by Jai Prakash Narayan, for its own film *26th June 1975*, produced in 2003.

Speaking to *Indiantelevision.com*, Patwardhan said, "Doordarshan had acquired the rights for Rs500 for each telecast [of my film]. However in 2003 when the Bharatiya Janata Party was in power, the broadcaster had made another film on the emergency which propagated Hindutva. The film had shown representatives from various Hindu parties as the real heroes of the emergency and for that Doordarshan used footage from my documentary which was a total misrepresentation of the truth."

"It's ironical," continued Patwardhan, "while at one side film-makers like us are constantly involved in a battle with Doordarshan so that the [broadcaster] telecasts our films. On the other hand, Doordarshan lands up misusing our films. I hope with this judgment the 'pubcaster' learns a lesson."

## PEOPLE MOVES

### PSA bolsters IP capabilities

Delhi-based law firm PSA Legal Counsellors recently hired Mahendra Singh to chair its intellectual property practice. Prior to joining PSA, Singh worked with Macmillan India as a legal adviser, representing the company in a large number of successful publishing ventures including those involving the United Nations Children's Fund, the United Nations Development Programme, the World Bank and the World Wildlife Fund. He also successfully represented Macmillan in a domain name dispute, and devised and implemented the company's anti-piracy strategy, which included raids carried out in various locations in India.

PSA proprietor Priti Suri said: "Mahendra brings with him more than a decade of experience in diverse areas of law and notably IP. His successful prior experiences, expertise, astute legal acumen and a pragmatic approach will add a unique dimension to our firm's growth and diversification."

Between 1998 and 2004, Singh worked with Luthra & Luthra, initially as an associate and then as a senior associate.

In addition to handling IP projects, he worked on various corporate, commercial and litigation matters, advising international clients such as Exxon-Mobile, Monsanto, Cargill, Swarovski, ANZ Grindlays Bank, Johnson Matthey and Perot Systems. He also represented the Indian Express Group before the World Intellectual Property Organization Arbitration and Mediation Centre in a domain name dispute, and succeeded in evicting a US-based cyber-squatter.

Of his decision to join PSA, Singh told *India Business Law Journal*: "I was influenced by Priti Suri's outstanding work experience across multiple jurisdictions as well as the firm's truly impressive client list. I like the firm's youthful and energetic character and I hope to grow and see the firm grow."



Mahendra Singh

### AZB promotes three to partnership

In mid-April AZB & Partners welcomed three of its lawyers – Shuva Mandal, Essaji Vahanvati and Srinath Dasari – to the partnership. Mandal has practised at AZB & Partners since 2000, Vahanvati has been with the firm since 2003 and Dasari joined in 2004.

Mandal works in a variety of practice areas including M&A, capital markets and litigation. Recently he worked on two of the largest foreign investment deals in the media sector, advising UTV Communications in its deal with Walt Disney, and representing STAR TV in its acquisition of South Indian television major Asianet. "It has been an interesting experience," remarked Mandal, "and I look forward to the challenging and interesting times ahead." Mandal has also advised Lehman Brothers in India on issues arising from the bankruptcy of

its US-based parent, and he advised the company on the sale of its Indian business to Nomura.

Vahanvati focuses on M&A, banking, securities and private equity. He recently advised Temasek and KKR in relation to their investment in Bharti Infratel. "I joined AZB & Partners directly after college and with each passing year, I am convinced that there could have been no better choice as far as my professional and overall development is concerned," Vahanvati told *India Business Law Journal*. "It's a real privilege to be a part of such an institution and I look forward to doing my utmost to live up to the faith and responsibility that the firm has entrusted me with."

Dasari has wide-ranging experience in M&A, private equity and capital markets transactions. He recently advised United Arab Emirates-based telecom service provider Emirates Telecommunications (Etisalat) on its acquisition of a 45% stake in a newly licensed Indian operator, Swan Telecom.

### Linklaters beefs up presence in Asia

In a bid to boost its Asian practice, Linklaters has announced the promotion of three new partners and four new counsel in the region, effective on 1 May. 18 new partners were elected worldwide, two-thirds based outside London. The new partners represent eight practices across each of the firm's three divisions and 11 offices.

The new partners in Asia are Umesh Kumar and Samantha Thompson in Hong Kong, and Jiro Toyokawa in Tokyo.

Kumar joined Linklaters in March 2008 and is a member of the firm's Greater China financial markets regulatory practice. Thompson has practised with Linklaters since January 2006 and is part of the firm's regional corporate and M&A practice. Toyokawa joined the firm's corporate and M&A practice in Tokyo at the time of its Japanese merger in 2005. He specializes in corporate and M&A work and advises international clients on Japanese law transactions, as well as Japanese clients on global law transactions.

Senior partner David Cheyne said: "Our new partners and counsel are an exceptionally talented group of people. On behalf of everyone at Linklaters, I would like to congratulate them on their success. The elections and promotions, which reflect the strength and depth of expertise across the firm, highlight our commitment to strategic investment in our global practice areas to meet clients' needs."

### Pepper adds spice with Bakers hire

Baker & McKenzie partner Valérie Demont has left its New York office to join US firm Pepper Hamilton as a partner in its M&A and securities practice. She will also be co-head of the firm's India group.

Pepper Hamilton is a full-service US law firm with more than 500 lawyers in seven offices across the US.

Demont told *India Business Law Journal*: "At Pepper, I will continue to focus my practice on M&A – both US and cross-border – as well as securities, finance and capital markets. In addition, as co-head of the India practice,



Valérie Demont

I will be focusing a lot of my work on India, servicing either US clients investing in India or Indian clients investing or doing business in the US."

Prior to joining Baker & McKenzie in March 2008, Demont worked for US firm Paul Weiss Rifkind Wharton & Garrison.

## New India heads for HSBC

On 16 April HSBC announced the appointment of Stuart Davis as chief executive of its India unit. Davis was previously the chief executive of HSBC Bank Australia.

The financial giant also promoted Naina Lal Kidwai to group general manager and country head of HSBC India. Prior to her new appointment, Kidwai was the deputy CEO, managing director and vice-chairman of HSBC securities and capital markets, India. Until October 2002, Kidwai was vice-chairman at JM Morgan Stanley. Before this, she was head of Morgan Stanley, India, where she helped start up the investment banking operations of the firm in the country and subsequently initiated the merger between JM Financial and Morgan Stanley in India in 1998.

Kidwai has the distinction of being the first Indian woman to obtain a master's degree in business administration from Harvard Business School. In 2007 she was awarded the Padma Shri, one of the highest civilian awards the Government of India can bestow, for her outstanding work in the field of trade and industry.

## Prasad lands key role at WIPO

NN Prasad, joint secretary at India's Department of Industrial Policy and Promotion (DIPP), has been selected as the "chef de cabinet" to Francis Gurry, the director general of the World Intellectual Property Organization (WIPO).

Shamnad Basheer, professor in IP law at the University of Juridical Sciences in Kolkata, explained that Prasad has helped change the face of the Indian IP administration, increasing the influence the nation has in the international IP arena.

"Prasad's legacy at the DIPP has been nothing short of exemplary," said Basheer. "He was one of the first

bureaucrats to take an active interest in the administration of the Indian patent office. He openly supported principles of public participation and transparency and was one of the first government servants to hold public consultations on the draft patent manual."

Prasad has defended the interests of India and other developing nations at a number of international forums. Most recently, he conveyed his disapproval of the inclusion of India on the US Trade Representative's "priority watch list".

The appointment of Prasad to WIPO is a landmark step that will propel India to new heights as a leading IP authority. "With this plum posting at WIPO, India is likely to become even more influential on the global IP stage," Basheer said.

## Skadden scoops Citi counsel

On 6 May, US law firm Skadden announced that Rajeev Duggal has rejoined the firm as a partner, and will lead its M&A, corporate and finance team from its Singapore office. Duggal brings to the firm vast expertise, having held senior legal positions at financial firm Citi in Singapore, where he most recently served as general counsel for the company's retail businesses in the Asia-Pacific region.

Duggal was previously deputy co-head of Citi's proprietary M&A legal department based in New York. Prior to that, he served as counsel at Skadden, representing clients such as CGMI, Newbridge, Telekom Malaysia and PT Telekomunikasi Indonesia on M&A transactions.

Discussing his return to the firm and his experience at Citi, Duggal told *India Business Law Journal*: "There is an ever-present need for practitioners in Asia who combine private practice and business-centric in-house experience. So the opportunity, as we get ready for the next upward turn in the business cycle, to leverage my Citi M&A, transactional and regulatory experience and serve clients as part of the Skadden platform was a compelling proposition."

Alan Schiffman, co-head of Skadden in Asia, said Duggal's appointment and other key additions demonstrate

the firm's strong commitment to serving clients in the region. "We know Rajeev, his approach to the law and the excellence of his work well, so we were delighted when this move became possible," said Schiffman. "Having served as both in-house and outside counsel to the financial services industry, he has broad experience, which we know will be invaluable to our clients."

Skadden also announced the promotion of Mark Leemen in Sydney and Michael Mies in Tokyo to the partnership. Recognizing a greater demand for restructuring advice in Asia, the firm has also transferred partner Paul Mitchard from London to Hong Kong to head up the firm's regional Asian international arbitration and litigation practice.



Rajeev Duggal

## TECHNOLOGY

### Indian judiciary goes hi-tech

Bombay High Court took a technological leap on 16 April, when for the first time it delivered a judgment via video conferencing.

The court has benches at Nagpur, Aurangabad and Panaji. Justice AV Nirgude, who serves on the Aurangabad bench, used the technology to render a verdict for a matter he had heard at the Bombay bench.

Justice Nirgude had reserved the matter for 4 April and was transferred to the Aurangabad bench on 6 April.

The case involved a suit between flat buyers and a builder. The flat buyers filed a suit in 2008, hoping for an infringement, but Justice Nirgude dismissed their plea.

“This system will save a lot of time,” Navdeep Vohra, a solicitor for one of the defendants in the case, told the *Hindustan Times*. “Earlier, cases where judges who were transferred after hearing a case completely had to be re-argued before a new judge, which used to consume a lot of time.”

This is not the first time that video conferencing has been used by the Indian judiciary to facilitate judgment proceedings; a verdict was pronounced by a division bench in Bombay to petitioners and advocates in Goa in August 2008.

### Court rules rent tax ‘unconstitutional’

The levy of service tax on commercial rentals of immovable properties was found to be unconstitutional in Delhi High Court last month.

On 18 April the court allowed 26 writ petitions, setting aside the tax levy and ruling that the parent law (the Finance Act, 2007) did not entitle the Indian government to levy the tax.

Alishan Naqvee, a partner at LexCounsel who represented a number of the petitioners, said that the category of “renting of immovable property service” was introduced by the Finance Act of 2007, which brought renting, letting, leasing, licensing and other similar arrangements in relation to immovable property to be used for commercial or business purposes, under the ambit of service tax from 1 June 2007.

“This new levy severely impacted business models across India as most of the pure rent arrangements did not even stipulate it beforehand,” explained Naqvee.

The petitioners challenged the service tax on the grounds that renting did not involve any service. In allowing their petition, the high court clarified that no service tax is payable on commercial rent for immovable property.

The judges observed that any service connected with renting of immovable property would be subject to the service tax under the act, but that the renting of immovable property by itself does not constitute a service.

The court further observed that service tax is a value-added tax, which is levied on the value addition provided by a service provider; and that as the renting of immovable property for use in course or furtherance of business or commerce does not entail any value addition, it cannot be regarded as a service.

“The judgment has provided a much-desired reprieve from the levy of service tax to the business community, and can perhaps be termed as the single judgment having the largest applicability for the business community across India,” said Seema Jhingan, a partner at LexCounsel.

## TAXATION

### Obama’s tax rules upset outsourcing

There is uproar in outsourcing circles after US president Barack Obama announced a proposal to tax expenditure by US companies on offshored services, beginning in 2011. The move is seen as an attempt to contain the flight of jobs to other countries, with the aim of boosting the ailing US economy.

The tax plan is projected to raise up to US\$210 billion. According to the Obama administration, US firms exploit tax loopholes to pay an average of only 2% on their foreign profits, costing the US taxpayer tens of billions of dollars each year.

India is estimated to provide at least 50% of the world’s offshored legal, business and IT services, across a plethora of industries. The country’s leading outsourcing lobby, the National Association of Software and Services Companies (Nasscom), said that if implemented, the new tax rules “would impact American head-quartered companies with overseas operations”.

However, the impact on global companies working in India will be marginal, according to Nasscom, as these companies already pay an income tax rate in the country of 33.9% (while the US rate was around 35%).

“The effect on India will not be significant,” Ameet Nivsarkar, vice-president for global operations at Nasscom, told AFP. He stressed that Obama’s plan is “not at all targeting” India’s outsourcing giants like Tata Consultancy Services, Wipro and Infosys.

Although it is believed that India would not be drastically affected by Obama’s proposals, experts say American companies may suffer. Corporations in the US have denounced the plan, arguing that it would lead them to pay higher taxes than their foreign rivals and eventually endanger US jobs. The Federation of Indian Chambers of Commerce and Industry in India echoed the criticism, saying it was “counter to the interest of US corporations desirous of cost-efficient operations across the globe”.



Barack Obama

## SPORT

## Milbank lawyer sails to victory

After a hard day's work, there's nothing better than jumping into a boat under clear blue skies and sailing away; at least that's how Anthony Root, managing partner of Milbank Tweed Hadley & McCloy in Hong Kong, feels. Recognized as a leading capital markets lawyer and India specialist, Root is also the owner and skipper of *Archambault 35 Red Kite II*, which won the Royal Hong Kong Yacht Club's (RHKYC) San Fernando boat race this year.

A total of 19 teams contested the three-day race from Victoria Harbour in Hong Kong to San Fernando in the Philippines. Despite sailing the smallest boat in the fleet, and at one point finding themselves 50 miles south of the straightest course while the rest of the fleet was to the north, Root

and his crew managed to seize victory. "We chose to sail a longer, more indirect route that we thought was faster," he explained to *India Business Law Journal*. "I've been sailing for only two years, which makes the victory even more satisfying, because I think it's unusual for a first-time skipper to actually win a race. To actually have it all come together and succeed is a huge thrill."

Indeed, Root said, "Running a sailboat racing team is frankly not very different than a law office. As a skipper, you're really a team leader and you set a tone, you set a direction, you have a vision – but you have to do it in a way that gives everybody value. It cannot be about you or any individual; it has got to be about the team as a whole."

So would he ever give up law to sail full-time? Root laughed: "As I'm sitting here looking out of my window on this beautiful clear day with a beautiful wind on the harbour and the beautiful sailboat out there right now, you're asking me where I'd rather be?"



Anthony Root

"The truth of the matter is it's a wonderful, wonderful hobby... [but] If you make it your sole focus, then you become a professional sailor and suddenly, it's no longer an accomplished hobby. You then have to rise to the top of that new profession and you'll just make yourself miserable."

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## Legislative and regulatory update

### TELECOMMUNICATIONS

#### New rules set to speed up India's broadband

In 2006 the Telecom Regulatory Authority of India (TRAI) introduced regulations on the quality of broadband services, stipulating benchmarks and parameters for bandwidth exploitation and network connectivity. Among the main aims of the 2006 regulations was "to protect the interests of consumers of broadband service and enhance consumer satisfaction".

There has been tremendous growth in the subscription of internet/broadband services, but also a high number of complaints from subscribers, most alleging that the available broadband speed is lower than what was promised by service providers. The 2006 regulations failed to address this issue.

Attempting to counter this problem and improve service quality, on 2 March TRAI issued a set of guidelines for internet/broadband service providers. The guidelines stipulate that providers should: (i) provide adequate information to subscribers regarding the internet/broadband services it offers, in order to ensure transparency and consumer awareness; and (ii) provide



information about contention ratios in their tariff plans submitted to TRAI, in their manuals, at call centres and on their websites.

The guidelines define contention ratio as "the number of users competing for the same bandwidth"; however, it can also be defined as the number of subscribers sharing the same bandwidth capacity. A lowered contention ratio results in significantly improved speed of internet access.

Service providers are expected to publish their contention ratios for different internet and broadband services on their website on a quarterly basis. It is also compulsory for providers to ensure availability of minimum bandwidth on

their network by meeting minimum contention ratio requirements prescribed by TRAI.

These guidelines aim to improve subscriber satisfaction by encouraging transparency and fair advertising on the part of internet service providers. Subscribers will be able to examine all options and choose the most viable service, and will also benefit from adequate broadband speeds. Even though broadband speed and connectivity does not depend solely upon contention ratios, these guidelines will ensure that service providers do not attempt to accommodate an excessive number of subscribers on the available bandwidth.

### INVESTMENT FUNDS

#### Limited partner investors risk capital defaults

As the global downturn affects more economies, a number of limited partner investors (LPs) at funds are finding it increasingly difficult to honour their capital commitments to their general partners (GPs). As a result, there are a number of LPs who have either defaulted on their capital calls and commitments to the GPs, or are looking to transfer their interests in the secondary market.

Usually, the partnership, subscription or contribution agreements provide for a wide range of penalties for such defaults. These include: (i) reducing the defaulting LP's interest in the fund; (ii) forcing a sale of the defaulting LP's interest in the secondary market; (iii) forfeiting and distributing the partial commitments paid by the defaulting LP; (iv) instituting legal proceedings against the defaulting LPs for not abiding by the agreement between the parties; and (v) imposing restrictions on the LP's participation in other fund investments.

Some GPs are not instituting any of the above actions, and are instead refunding the initial drawdowns to the LPs and winding up the fund. Other GPs are considering delaying capital

calls or reducing the size of the fund. The extent of regulatory action that the LPs may be required to face depends on the governing law provision that is negotiated by the LPs with the GPs in their agreement. At present, LPs are trying to either delay their capital calls or find buyers in the secondary market to fight the liquidity crunch.

LPs proposing to make new investments are now spending more time conducting in-depth due diligence on GPs and their existing portfolios before investing in their funds. In addition, they have become more cautious regarding the GPs' track record. LPs are also negotiating more with GPs, aiming to reduce the traditional 2/20 fee structure and asking for more management rights at the fund level.

## LITIGATION

## Top court rules on unregistered partnerships

In *V Subramanian v Rajesh Raghuvandra Rao*, the Supreme Court declared a provision introduced by a state amendment in Maharashtra to be unconstitutional and invalid.

The provision stated that a partner in an unregistered partnership could not file a suit for dissolution or for the accounts of a dissolved firm, or to realize the property of a dissolved firm. The Supreme Court noted that the effect of the state amendment was that an unregistered partnership firm was allowed to come into existence and to function, but could not be dissolved and become non-existent (subject to certain exceptions).

The appellant, Subramanian, had filed a suit before the Bombay City Civil Court for the dissolution of an unregistered partnership firm between himself and the respondent, Rao. Rao submitted that the suit was not maintainable in view of section 69(2-A), as incorporated by the state amendment.

The city civil court stated that this provision was unconstitutional because it violated articles 14 and 19(1)(g) of the Constitution of India, and thus proceeded to refer the matter to Bombay High Court. The high court disagreed, stating that the provision was not unconstitutional, leading Subramanian to file an appeal in the Supreme Court.

The Supreme Court observed that unlike a company, a firm does not exist as a distinct legal entity under Indian law and is only a compendium of its partners.

However, the court maintained that registration can turn a firm into a distinct legal entity. Hence, the partners became co-owners of the property of a firm, unlike shareholders in a company who are not co-owners of the property of a company. The state amendment virtually deprived one partner of his share in the property without any compensation, and prohibited him from recovering it by seeking the firm's dissolution.

Accordingly, the Supreme Court held that the state amendment violated articles 14, 19(1)(g) and 300A of the Indian constitution, and was thus unconstitutional.

## High court upholds damages award against state utility

In a landmark decision, the Bombay High Court has upheld a large damages award made by arbitrators against the Maharashtra State Electricity Distribution Company (MSEDCL). In *Maharashtra State Electricity Distribution v DSL Enterprises Pvt Ltd*, the court directed MSEDCL to pay damages of Rs1.85 billion (US\$37 million), plus interest at the rate of 10%, to private firm DSL Enterprises as compensation for breach of a contract. The court cited corruption as the cause of the breach and held that the award of damages was granted to compensate DSL, which had been victimized because of the maleficent acts of the officers of the state. Never before have arbitrators and courts in India been so bold in their approach towards the granting of damages.

This judgment has brought into reality a much-awaited transformation in the attitude of the courts when awarding damages, including litigation costs. The grant of a substantial amount to cover the costs of litigation (over and above damages) is commonplace in foreign jurisdictions, but not in India. This judgment justifies optimism that Indian courts will follow its example. Although public coffers will feel the strain of this award, the judgment sets an important precedent; litigants (even private individuals), and especially foreign investors, can now look forward to a fair and equitable approach by the judiciary as a culture of damages is developed.

## EMPLOYMENT LAW

## Supreme Court clarifies sexual harassment rules

In a recent case involving sexual harassment at the workplace, the Supreme Court of India reaffirmed its 1997 judgment in the case of *Vishaka and others v State of Rajasthan* by directing an employer to follow the original Supreme Court guidelines and also pay the victim's litigation costs.

The guidelines, which must be followed by all organizations in India, require a complaints committee to be established

to deal with any issues concerning the sexual harassment of female employees. There have been instances in the past in which the courts have directed employers to take disciplinary action against employees alleged to have sexually harassed others in the workplace. However, in the present case, the Supreme Court went a step further and awarded litigation costs to the victim.

Courts in India have generally been cautious in awarding damages in the form of legal costs; this case suggests that a new trend in favour of awarding legal costs may be emerging. In light of this judgment, it becomes even more crucial for organizations to ensure that they are in strict compliance with the guidelines, in terms of both process and implementation.

## TAXATION

## AAR tightens territorial nexus for royalty payments

In a recent ruling on *Worley Parsons Services*, the Authority for Advance Rulings (AAR) revisited the principles of international taxation governing the treatment of royalty payments made for services rendered by a non-resident in India, as well as the established principles of territorial nexus governing the taxation of such payments. The applicant in the present case, *Worley*, is an Australian company which had entered into three agreements to provide engineering and procurement services which were mainly performed in Perth. Only 20% of the total services was performed in India.

The main point for consideration by the AAR was whether the services performed were connected to a permanent establishment (PE) in India. In the event of such a connection, only that part of the profit attributable to the PE would be tax-liable in India. The AAR held that this connection must be "real and intimate". Due to the lack of such a connection, the services could not be categorized as business profits and were thus liable to be taxed as royalty payments on the services provided by *Worley*.

*Worley* also contended that in accordance with the principle of territorial nexus laid down by the Supreme Court in the case of *Ishikawajima Heavy Industries*, only the portion of the services which

had a territorial nexus with India (that is, 20% of the total services) should be taxed. While the AAR questioned the logic provided by the apex court, the binding nature of the court's judgment meant the AAR had no option but to give effect to the ruling. However, considering the distinctive feature of the services performed in India under the first agreement, which were the prerequisite for the services which were then performed in Perth, the AAR ruled that all services (that is, those rendered both inside and outside India) had a territorial nexus with India and were therefore tax-liable there.

The AAR's ruling has questioned the very basis of the doctrine of territorial nexus laid down by the Supreme Court in its ruling of *Ishikawajima* and developed in the recent ruling of *Clifford Chance*. Although the rulings of the AAR are binding only on the applicant and the tax authorities, they do have a persuasive value and hence developments in this arena should be watched carefully. The concept of territorial nexus that has been established so far in India is in line with the international approach, and any deviation should be made cautiously and circumspectly.

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## Central board clarifies tax credit rules

The Central Board of Direct Taxes (CBDT) has recently clarified who will be able to benefit from tax deducted at source (TDS) in cases where income is assessable in the hands of an individual other than the deductee. This applies specifically to those treated as an association of persons (AOP) or a body of individuals for Indian tax purposes, such as domestic venture capital and private equity trusts; joint ventures; joint distributions; and other combinations (such as are prevalent in the pharmaceutical and film industries, among others). While there was always a substantive provision (section 199) under the Indian Income Tax Act, no rules prescribing the procedure had been made by the government.

For example, in a situation where an AOP receives payments and the payer deducts the requisite amount in the name of the AOP, there was ambiguity over whether the members of the AOP would be able to get a credit for the TDS. The recent notification clarifies that the

TDS credit should go to the members of the AOP.

Other typical situations have also been clarified by the notification, including the case of joint owners of shares, property and deposits; partners in a partnership firm; and of a karta (the eldest male member of a Hindu undivided family). Further, the CBDT has

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## Mauritius tax row settled by mutual consent

The recent decision by Bombay High Court in *E\*Trade Mauritius Limited v ADIT & Ors* has generated much anxiety and apprehension within tax and investor circles. E\*Trade Mauritius, a wholly owned subsidiary of US-based E\*Trade Financial Corporation (E\*Trade US), sold its stake in Indian company IL&FS Investmart to HSBC Violet Investments (HSBC), also based in Mauritius. The transaction essentially involved the sale of shares in an Indian company from one Mauritian company to another.

E\*Trade Mauritius sought to obtain a certificate from the tax authorities permitting a payment of consideration by HSBC without any withholding of tax. The tax authorities refused to grant the certificate, prompting E\*Trade to challenge the decision by filing a writ

explained that in circumstances where the deductee is a trust and the income is assessable in the hands of trustees, the TDS credit should be granted to the trustee. However, cases where the tax is being paid by beneficiaries, while the TDS certificate is in the name of the trust or trustee, have not been discussed.

petition before the Bombay High Court. On the basis of the parties' consent, the court directed E\*Trade Mauritius to file a revision application before the tax authorities. HSBC was also directed to deposit Rs245 million which would be withheld from the consideration paid to E\*Trade Mauritius.

Subsequent to the high court's order, the tax authorities reconfirmed their earlier position regarding the withholding of tax by HSBC. Accordingly, the high court directed the release of Rs243.1 million from the deposited amount to the government and a refund of the remaining amount to E\*Trade Mauritius.

The high court has clearly not reviewed the merits of the case since its order is based on the consent of the parties. There is hence no ruling on the issue of capital gains taxability in India, not even at the assessment level. The Supreme Court's earlier decision in the case of *Union of India v Azadi Bacho Andolan*, which upheld the validity of the Mauritius route, remains the prevailing judgment on the subject.



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*The legislative and regulatory update is compiled by Nishith Desai Associates, a Mumbai-based law firm. The authors can be contacted at nishith@nishithdesai.com. Readers should not act on the basis of this information without seeking professional legal advice.*

## Court judgments

### PROFESSIONAL NEGLIGENCE

## Reprieve for lawyers who offer bad advice

In a significant ruling pertaining to the professional liability of lawyers, the Supreme Court of India recently stayed an order passed in 2007 by the country's apex consumer court, the National Consumer Disputes Redressal Commission (NCDRC), which held that advocates should be covered by the Consumer Protection Act, 1986, and should be taken to consumer courts if the services provided to clients have been deficient or unsatisfactory.

In its appeal before the Supreme Court, the petitioner, the Bar of Indian Lawyers (BIL), contended that the order of the NCDRC was not maintainable, since consumer forums that followed summary proceedings could not decide on a lawyer's alleged negligence. BIL claimed that the commission failed to make an important distinction between the professions of law and medicine. Calling the decision to subject lawyers to the jurisdiction of consumer courts "illegal", BIL asserted that the commission had committed a grave error in law by encroaching

upon the jurisdiction of the bar council, a statutory body entitled to handle complaints against advocates.

In its order the NCDRC had stated that lawyers were as liable as doctors or any other professionals for negligence or deficiency in service, and that clients had every right to take them to court via a complaint under the Consumer Protection Act, if they were unable to provide adequate services, including advice and counsel. In passing this judgment, the NCDRC reversed the earlier order of the

Delhi Consumer Disputes Redressal Commission (DCDRC), which in 2006 held that the services rendered by lawyers would not fall under the ambit of the Consumer Protection Act. The DCDRC's order had suggested that because the client executes the power of attorney authorizing the counsel to perform certain acts on his behalf, and because there is no term of contract as to the liability of the lawyer, consumers had no right to file a case against the lawyer before a consumer court for failure to perform any such act.



### ARBITRATION

## Civil suits do not always invalidate arbitration clauses

In *Ministry of Sound International Ltd v Indus Renaissance Partners Entertainment Pvt Ltd*, Delhi High Court addressed the question of whether the filing of a civil suit by a defendant amounted to an abandonment of the right to invoke arbitration. According to the court, it is well understood that an arbitration clause does not prohibit the filing of a civil suit. If the contesting party files an application under section 8 or 45 of the Arbitration and Conciliation Act, 1996,

the parties are relegated to arbitration. The plaintiff takes a risk when he invokes the jurisdiction of a civil court in spite of the existence of an arbitration clause: it is up to the defendant to determine whether civil proceedings should continue or whether the parties should be relegated to arbitration (if conditions of sections 8 or 45 of the act are satisfied). However, once both parties have consented and allowed civil proceedings to continue, neither can subsequently invoke or revive the arbitration clause.

In the present case, the defendant, Indus Renaissance Partners, filed an application under section 8 of the act for the dismissal of a civil suit filed by the plaintiff, Ministry of Sound, on the grounds that the disputes were covered by the arbitration clause between the two parties. After filing this application,

Indus Renaissance Partners also filed a civil suit, but then withdrew it. Ministry of Sound contended that the parties could not be referred to arbitration since Indus Renaissance Partners' action in filing a civil suit amounted to an abandonment or waiver of the right to invoke arbitration.

The court stated that Indus Renaissance Partners had invoked the arbitration clause by filing the arbitration application; the company did subsequently file a civil suit, but the suit had been withdrawn. If the defendants had first filed a civil suit and thereafter filed the arbitration application, the situation would have been different. The court thus maintained that the filing of a civil suit in the present case did not amount to abandonment or waiver of the right to invoke arbitration.

## TAXATION

### Expat salary tax to be deducted at source

The Supreme Court of India recently delivered a landmark judgment in the case of Eli Lilly (and various others) on the issue of deducting tax at source (TDS) on expatriate salaries. The decision finally puts to rest a long-debated argument on whether Indian tax deduction is required when an employee is working in India but paid from outside India, whether wholly or in part.

The issue before the Supreme Court was whether an Indian joint venture had defaulted on its obligations to withhold tax on the remuneration that was paid to its employees in a foreign country. Until now, expatriate employees showed only a part of their income in India, while the rest was paid outside the country by the foreign parent. The tax authorities argued that all of the employees' income

was taxable as the TDS provisions have extraterritorial operation.

The Supreme Court agreed that foreign companies must deduct TDS on expatriate salaries. The court also maintained that the Indian entities were required to deduct tax at source for the foreign salary portion as well as for the Indian salary portion. The court thereby set aside various high court verdicts that held that non-resident companies were not under statutory obligation to deduct TDS on salaries paid to their expatriates in foreign currency under section 192 of the Income Tax Act, 1961 (ITA).

The Supreme Court held that foreign companies operating in India through joint ventures are required to deduct TDS from salary or special allowances paid abroad to their employees working in India. The court observed that section 192 read with section 5 and section 9(1) (ii) of the ITA is broad enough to require

an employer to withhold tax in India even on the salary that is paid to an expatriate assignee by the foreign entity to a foreign bank account.

Thus, the Indian joint venture was directed to comply with the withholding tax provisions even in the case of salaries paid overseas by a foreign company. However, the court held that penalties could not be imposed on these foreign companies for failing to deduct TDS on the portion of salaries paid in their home countries to their expatriate employees working in India, as the matter was complex and there was reasonable cause on the part of the companies for not deducting tax at source in the past.

It is interesting to note that the Supreme Court has clarified in the judgment that the decision is applicable only to withholding tax pertaining to salary income and will not be applicable to the Vodafone case.

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*The update of court judgments is compiled by Bhasin & Co, Advocates, a corporate law firm based in New Delhi. The authors can be contacted at lbhasin@bhasinco.in, lbhasin@vsnl.com or lbhasin@gmail.com. Readers should not act on the basis of this information without seeking professional legal advice.*



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# Making your mark

**The economic downturn must not deter rights owners from deploying smart strategies to protect and build their intellectual property portfolios**

*Vandana Chatlani reports*

**J**ohn Squires, a partner and co-chair of the IP practice at Chadbourne & Parke in New York, tells a story about Judge Rich, a former chief judge of the Federal Circuit Court of Appeals (the highest patent court of exclusive jurisdiction in the US) and the primary author of the US Patent Act, 1952, which is still in effect today.

“Judge Rich was a young lawyer in the US during the great depression,” recounts Squires. “My colleague asked him what it was like being a patent lawyer during the great depression. Judge Rich smiled and cheerily replied, ‘There was no great depression for patent lawyers’.”

Judge Rich’s remarks hold true today, says Squires, even though the current downturn can hardly be compared to the economic disaster of 80 years ago. “Smart companies are using and should use the downturn to expand their reach and IP protections in order to better position themselves competitively as markets come back – and come back they will,” Squires predicts confidently.

Such advice may seem easier said than done for cash-strapped in-house legal departments, but many strategies for protecting and enhancing the value of intellectual property make good commercial sense, even in times of



*Intellectual Property Practice*

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## IP PRACTICE

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adversity (see *Crisis management*, page 20). Moreover, as *India Business Law Journal* reported last month, the risks and repercussions of hasty cost-cutting when it comes to IP rights protection can easily outweigh any short-term financial gains.

“Companies do have specific expense control measures they can deploy smartly, such as provisional patent application filings where commercial markets are less mature and developing,” explains Squires. “Companies can also rationalize certain patents in geographic markets where patent coverage for products or services may no longer make sense.

“In addition, in the US there are companies and even funds that will buy patents or pending applications on the market, so companies can sell those patents that they determine are no longer core to them. That is a market dynamic that was not available even a few years ago,” Squires adds.

Nicholas Studler is the trademark counsel for Eurasia and Africa at Coca-Cola. He believes there are various ways to achieve and protect innovations while keeping a tight control on expenditure. Studler suggests leveraging the advantages of modern software; allocating work for multiple countries to one law firm to reduce the administrative burden and obtain lower legal rates; reviewing and adapting internal processes and procedures; and optimizing existing portfolios.

“Our budgets changed a lot. We had consecutive budget reductions in a two-digit range for the last three years,” reveals Studler, “but not since the beginning of the crisis. Our management is very cost conscious and we have been taking action in the last couple of years to reduce unnecessary expenses and to become more efficient.”

### Saving by spending

It is futile to invest in the development of intellectual property if one is going to adopt a penny-pinching attitude towards its protection and enforcement (see *Doing away with false economies*, page 22). The repercussions of inadequate protection are severe; one act of breach can destroy value that has taken many years and considerable investment to build.

According to Jordanna Popli, a senior solicitor at Wragge & Co in Birmingham, UK, proper protection is necessary

**Without continuing to conduct IP audits and brand clearance, a business leaves itself much more open to the risk of costly litigation**

Jordanna Popli  
Senior Solicitor  
Wragge & Co



**The presence of an in-house patent attorney will save money**

Constance Huttner  
Partner  
Vinson & Elkins



not only to prevent conscious infringement but also to avert the copying of third party IP, which sometimes occurs out of ignorance but in other cases is arguably more calculated (see *Bollywood remakes: Inspiration or infringement?*, page 24). “Companies may do this intentionally, but without knowledge that it constitutes an infringement, or unintentionally due to a lack of carrying out proper brand, design, technology and third party searches,” she says. “Without continuing to conduct IP audits and brand clearance, a business leaves itself much more open to the risk of costly litigation.”

Even companies in the innovation stages of product development are at risk of committing innocent infringement. “As a result of reduced budgets, some companies may attempt to minimize their costs associated with producing a product by copying designs of competing products or not expending time and money for performing an adequate patent clearance search for the product,” explains Jody Bishop, a partner at Fulbright & Jaworski. “This may result in a greater likelihood of infringing the IP rights of others.”

According to Constance Huttner, a partner at Vinson & Elkins in New York, in-house counsel have a very important role to play in minimizing the risks of IP violation by a company. “One of the worst mistakes a company whose business relies on its intellectual property can make is to try to save money by not having an in-house intellectual property attorney,” says Huttner, who has wide-ranging experience advising clients in a variety of patent trials and appeals in the biotechnology and pharmaceutical sectors.

Huttner believes that an in-house lawyer can understand a company’s business, culture, policies, strategies, and goals to a degree that cannot be achieved by an external lawyer. “This knowledge is very important when decisions regarding patent as well as trademark protection are made,” she says. “The presence of an in-house patent attorney will save money by the supervision of the outside attorneys, ensuring that costs are contained as much as possible and work is done as efficiently as possible.”

### Good housekeeping

Several lawyers explain that considerable costs can be saved simply by conducting periodical reviews of IP portfolios, and that the overall importance of IP maintenance and prescience (to sustain a long-term vision and to monitor

## Crisis management

### Indian and international IP experts offer their tips on safeguarding intellectual property during the downturn

I would advise domestic companies to be very careful of knowingly stepping on someone else's IP toes, because they're certainly going to recoil. I don't think there will be any hesitation in retaliation at this point of time.

**Dev Robinson, Partner**  
**Amarchand Mangaldas**

Companies need to register their trademarks and copyrights and designs on a priority basis. Their IP task force should remain vigilant and report any piracy detected.

**Karnika Seth, Partner**  
**Seth Associates**

In the current environment, reputational threats are potentially significant and increasing as we see adverse press reports about some entities. There is potential for them to suffer enormous and ongoing damage to key brands.

**Kim O'Connell, Partner**  
**Mallesons Stephen Jaques**

IP owners should offer real incentives for piracy reporting to the general public as well as, critically, their own employees. Link these incentives to seizure values. Convert your work force into a 'thousand eyes and ears'.

**Ameet Datta, Partner**  
**Luthra & Luthra**

Code mechanisms should be in place so that internal content cannot be used externally. Storage mediums should be removed. Employees should have no access to external e-mail and no storage mediums in the work area. Sophisticated technology is necessary. These are concrete steps that companies and employers can take to prevent data theft and a breach of confidentiality.

**Chetan Thakker, Partner**  
**Kanga & Co**

This is the perfect time to figure out alternative research and development methodologies that cost less. I think the downturn presents an excellent opportunity for companies to introspect and move beyond their conservative shackles.

**Shamnad Basheer, Professor**  
**National University of Juridical Sciences**

Every IP-owning company should engage in strategy management in order to understand the changing economy and positively respond to such changes. Companies should follow practices such as risk management in order to make timely adjustments and to preserve or enhance their market.

**Rahul Chaudhry, Partner**  
**Lall Lahiri & Salhotra**

Companies, particularly, in the outsourcing area, should discuss the issue of retention with their clients and attempt to build in pricing to provide bonuses or retention compensation to ensure some consistency in the workforce. The use of appropriate contracts with all personnel together with adequate, or slightly above market, compensation may help to protect client and company property from subsequent unauthorized disclosure and avoid unnecessary enforcement costs.

**Bijal Vakil, Partner**  
**White & Case**

Companies may consider reducing IP registrations to a need-to-register basis. This will ensure that the IP portfolio is managed in a cost-effective manner.

**Anoop Narayanan, Partner**  
**Majmudar & Co**

At a time when a company is cash rich, it can go for multiple protections ... If you're at a time when cash is a problem, you'll concentrate on the core protections, which means you'll restrict it to some strategic protections which will carry you over a reasonable distance. You have to get very strategic at this time.

**Pravin Anand, Managing Partner**  
**Anand and Anand**

Commercially realizing the value of IP can act as a crutch in financial turmoil. Contractually safeguarding rights licensed to companies minimizes the risks associated with insolvency, default or breach.

**Jordanna Popli, Senior Solicitor**  
**Wragge & Co**

Whether or not there is a recession, you have to protect your patents.

**Milind Antani, Partner**  
**Nishith Desai Associates**

## Today's economy dictates that patents are not commodities

Bijal Vakil  
Partner  
White & Case



existing assets) cannot be emphasized enough. Without such reviews, companies often forget to renew their registration licences, and so retain unused or useless brands instead of discarding them. Surrendering these non-performing patents and applications saves maintenance fees and prosecution costs, in some cases adding up to significant amounts.

A common and costly error occurs when a company simply fails to inform its legal team of its decision to drop an existing infringement case which is no longer deemed worthwhile. "Too often companies seek protection for intellectual property, and then turn the prosecution over to the legal group ... and for a variety of reasons, the business group elects not to pursue the business opportunity related to the intellectual property, but fails to advise the legal group," says Stuart McCormack, a partner at Stikeman Elliott in Canada. "So money is spent pursuing something which, from a business point of view, the internal client has lost interest in."

While audits can certainly reduce wastage, they can also uncover untapped commercial opportunities. "An audit may reveal forgotten, unknown or unattended IP assets that may still have potential for exploitation," says Mahendra Singh, chair of the IP practice at Delhi-based PSA Legal Counsellors. "For instance, a book publisher whose rights in out-of-print titles are still subsisting may explore the possibility of bringing out fresh, revised editions or translations or adaptations of some of them, or it may license such rights to others."

Bijal Vakil, a partner at White & Case, agrees that unlocking the value of a company's core products is a vital and complex process that requires careful assessment. "Today's economy dictates that patents are not commodities," he says. "The days of simply referring to the size of a patent portfolio are long gone. The quality of a patent is much more important today. We have encountered numerous situations where a single patent was much more valuable than hundreds of patents in a portfolio."

Predicting the revenue-generating potential of products is a challenge, as illustrated in the case of one of Squires' clients, which ranked its invention disclosures in terms of anticipated market value in order to determine patent-spend priorities. "They ranked all their invention disclosures in descending importance – A, B, C, with Cs being those that looked somewhat interesting, but were not expected to generate much commercial value," explains

Squires. "Five years later, the company found that over 75% of its licensing revenue was being generated from invention disclosures originally categorized as C – that is, those that were anticipated to have little or no value at the time of filing.

"The point is, since value in intellectual property is realized over time and it is difficult, if not impossible to predict the path that technology will take, companies nevertheless should continue to think strategically and similarly deploy their resources to the longer view," Squires says.

### Global vision, local focus

While most lawyers agree that long-term vision is critical to the success of any IP protection strategy, many also stress the need for an international outlook. "Domestic markets are important, but more frequently for long-term business strategy, protection outside the domestic market is desirable," says McCormack. "It becomes easier to create a joint venture in another country when you have solid intellectual property protection in that country."

Kim O'Connell, a Sydney-based partner at Mallesons Stephen Jaques, believes that companies that lack international vision risk missing key opportunities and making costly mistakes. She gives the example of Monster, an energy drink brand that is at the centre of a protracted IP dispute.

The drink was originally sold internationally by US-based Hansen Beverage, which failed to register the trademark in Australia. Australian manufacturer Bickfords subsequently registered the Monster trademark in the country and created its own energy drink under the same name. As a result, Hansen is embroiled in an extensive and complex litigation. It also has to overcome the damage caused to its brand in Australia by the sale of Bickfords' product. "What should have been a simple brand launch is now considerably more complicated," says O'Connell. "Hansen has a longer, harder and more expensive road ahead of it to successfully establish the Monster brand in the Australian market."

The Hansen case is indicative of the dangers that face intellectual property owners in India. Indeed, many companies are particularly vulnerable in India because their past IP strategies failed to anticipate the significance of the market and the speed with which it would emerge.

## If you are in good hands law firm-wise, a huge burden is taken off your shoulders

Nicholas Studler  
Trademark Counsel  
Eurasia and Africa  
Coca-Cola



## Doing away with false economies



**Rahul Chaudhry, a partner at Lall Lahiri & Salhotra, explains how companies can maximize the value and minimize the cost of IP protection**

In the world of intellectual property, attempts to save money in the short term can lead to serious long-term losses. Smart IP managers will look instead to simple measures that focus resources where they are really needed, protecting valuable assets that are crucial to the company's current and future success. Thoughtful, targeted spending using the strategies outlined below might save a lot more money than false economies ever can.

**Effective and efficient invention disclosure reports:** Disclosure reports should be clear and comprehensive, including all needed drawings, descriptions and models. Careful preparation by the inventor helps ensure efficient processing of the report by the drafting attorney, thereby minimizing costs.

**Abandoning non-performing patents:** The relevance and rates of return of each asset should be assessed to see if it is still needed. Some companies are hesitant to abandon an unneeded patent for fear that it is later found necessary to protect an important product or technology. If so, a thorough and blame-free identification process can be established, whereby patents identified as unneeded are reviewed and signed off by the legal, technical and business groups within the company before being abandoned.

**Jurisdiction-specific maintenance of IP:** While the protection of a patent or a trademark may have made sense at the time of filing in a particular jurisdiction, it need only be maintained there as it continues to return value to the company. Using objective standards to eliminate unnecessary coverage reduces maintenance fees.

**Making only the claims that are really needed:** During patent prosecution, attorneys usually include claims with the broadest possible scope. However, claims are often very difficult and expensive to procure as well as unnecessary to achieve the company's business goals. A more cost-effective approach is to focus on narrow claims that specifically cover the company's technology and its most important applications.

**Using trade secrecy:** A novel cost-saving methodology has recently become more common: dividing inventions into various parts and filing only one of these as a patent, while keeping the others as trade secrets. Under this approach, follow-on inventions may also be kept as trade secrets. However, this method is advisable only if the company has a sound secrecy programme in place, and is confident that competitors will not be able to arrive at the same invention independently.

**Benefiting from IP office delays:** The lengthy

processing delays at IP offices can be used to applicants' advantage: while the upfront drafting and filing costs of patent or trademark applications cannot be avoided, the significant costs incurred during prosecution can be deferred until the economy stabilizes.

Besides these strategies to reduce IP-related costs, there are also opportunities to enhance the value of an IP portfolio:

**Licensing strategies:** These are now widely accepted as key instruments for achieving corporate goals. Once it is determined where licensing fits best into a company's overall business strategies, a licensing programme can be developed to meet the identified aims.

**Acquiring cut-price IP:** The current economic environment offers opportunities to acquire IP at favourable prices: cash-strapped investors, and small or start-up companies that have lost funding, may well be ready to sell IP reduced rates. It is important to identify what the purchaser really needs, and to use an effective valuation process before commencing with negotiations over prospective purchases.

**Audit existing IP agreements:** A second look at a company's existing assets may reveal valuable back-royalties that are owed and ready to be collected. Many companies fail to carry out adequate accounting of their various IP agreements, often because they are hidden away in various internal factions of the company, making them difficult to track.

The cost of IP protection is a small but vital part of a company's total R&D investment; registering brands and trademarks is the easiest and cheapest way for a company to safeguard the whole process. Although financial managers are now placing unrelenting pressure on IP professionals to contain or reduce costs, protection of assets is vital to assure long-term business goals. The best answer to the dilemma lies in auditing, assessing and streamlining IP portfolios.

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*Rahul Chaudhry was called to the bar in September 2002. He joined Lall Lahiri & Salhotra in January 2004 and became a partner just four years later. Along with the firm's founding partners, Anuradha Salhotra and Amar Raj Lal, Chaudhry is regarded as one of the most prominent faces of IP management in India.*

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"India is a very promising and a diversified market where people are brand-conscious," observes Jyoti Taneja, a partner at Akash Chittranshi & Associates. However, as McCormack explains, "For many years, protecting intellectual property in India through formal registration was simply not on the radar screen of many companies in Western countries.

"India's rapid rise has left many companies lagging behind in terms of obtaining protection," he says.

Karnika Seth, a partner at Seth Associates, describes some of the unique challenges that face IP owners in the country: "Geographical markets differ significantly throughout India. Manufacturers and sellers of pirated goods may keep shifting their locations and appropriate police assistance may be difficult to get in certain territories."

"The number of small scale infringers is extraordinarily high," adds Studler at Coca-Cola. "The trademark register is crowded and I was surprised to see many co-existing identical trademarks. The speed of change makes it hard to keep up.

"India is a fascinating country, and not only from the IP standpoint," he enthuses.

### Time for austerity measures?

Studler says that companies should think twice before discarding any of their IP assets. "As the manager of an IP portfolio you have to think ahead when making decisions since all IP filings and applications take some time," he says. "One thing is for sure: the economic downturn will not last forever. If you clean up your portfolio now in order to save some bucks for your budget, you may end up spending more at a later time to get the rights back when you really need them."

Daren Orzechowski, a partner at White & Case in New York, says it's especially important for companies with international IP portfolios and exposure in India to include IP related clauses in all contracts with employees and consultants who may have access to (or may create) IP or other sensitive information. "Such contracts should focus on securing confidentiality and locking up intellectual property rights, and avoiding any reversion rights, from the moment of creation," says Orzechowski. "Possessing

With Indian clients, it's 'What is a trademark?' rather than a discussion about deceptive similarity

Chander Lall  
Managing Partner  
Lall & Sethi



It's really hard to predict what kind of policies will be framed in this environment

Shamnad Basheer  
Professor in IP Law  
National University of  
Juridical Sciences



a breach of contract claim may ultimately prove more advantageous than ordinary intellectual property protection," he adds.

Regular, commonsense security measures are also important, says Orzechowski: "In addition to legal protections, practical physical protections should be put in place, including computer and office security policies and restrictions. The legal protections should be the second line of defence because by the time the legal rights are analysed the actual security measures have often already been breached."

### When things go wrong

In such circumstances, IP owners must decide whether to turn to India's famously slow and over-burdened judicial system in search of recompense. If they do, they are likely to find that the country's civil courts offer a more attractive course of action than the criminal ones.

"In recent times, the Indian civil courts have begun awarding fairly sizeable compensatory and punitive damages in IP matters," says Nikhil Krishnamurthy, a senior partner at Krishnamurthy & Co in Bangalore.

"Clever civil litigation strategies routinely result in quick settlements and the payment of costs and damages by infringers," he adds. "While criminal remedies do have the desired deterrent effect immediately following a raid, criminal trials have their own inherent weaknesses and rights owners may do well to adopt the civil route."

Litigation of any sort has the tendency to be slow and extremely costly, but as Orzechowski explains, costs can be reduced substantially if the action is run through one lead counsel and resources are shared. For example, co-defendants of infringement claims can cooperate to slash costs and maximize their access to prior art or other assets that may be useful for leveraging a group settlement.

Vakil notes that companies entering India (through outsourcing or otherwise) often lack an adequate understanding of how the litigation process works in the country. "While injunctive relief is available [in India]," he says, "damages awards are rare and often not commensurate with the harm caused by an infringement. US companies would not typically expect this result given the awards

given through [the US] legal system.”

Vakil continues: “Companies outside India may be well advised to seek arbitration in India or in accordance with the appropriate legal principles for the ease of enforcement in India to remedy this.”

Indian parties often prefer disputes to be adjudicated by Indian courts, Vakil adds, but “this is often a difficult provision to obtain in view of the seemingly endless time to trial along with the perceived bias in favour of Indian parties as compared to non-Indian parties.”

Obtaining high-quality local legal advice is perhaps the most sensible approach for multinational companies that wish to resolve disputes quickly and comprehensively. “If you are in good hands law firm-wise, a huge burden is taken off your shoulders,” says Studler at Coca-Cola. “Seek local expert advice to develop a good strategy; have a clear defined plan of what your company wants to achieve in India; be adventurous; and enjoy the opportunities that incredible India has to offer.”

## Signs of improvement

Despite widespread international criticism of India’s judicial system, many observers believe that things are improving. “Infringement cases are filed in very large numbers at the Intellectual Property Appellate Board (IPAB),” says Jyoti Sagar, senior partner of IP boutique K&S Partners and managing partner of J Sagar Associates. “Delhi High Court is very established in making judgments on IP,” he adds. “Judges understand the trademark side and the cases are procedurally quicker. When a case is made, your appeal is heard virtually the next day.”

Kalpna Merchant, a Mumbai-based partner at AZB & Partners, has also witnessed improvements. “The patent office has better infrastructure [now],” she says. “Even registration used to be cumbersome. Now it’s much more efficient.”

Overall, however, India’s IP framework remains at a nascent stage. Its development is promising, but frustratingly slow.

## Inspiration or infringement?

**Ameet Datta, a partner at Luthra & Luthra, uses a case study of India’s film industry to highlight the IP challenges facing foreign rights owners**



There is a general consensus that Bollywood is in bad shape; yet films such as *Chak De India*, *Welcome*, *Partner*, *Taare Zameen Par*, *Singh is King* and *Ghajini* have had cash registers ringing at box offices across the country. So is creativity and originality booming in Bollywood or not?

Will Smith’s Overbrook Entertainment and Sony Pictures have their own views on this question, as their film *Hitch* may have provided more than just inspiration for the Indian hit *Partner* starring Bollywood actors Salman Khan and Govinda. A similar close link exists between the Denzel Washington film *Man on Fire* and *Ek Ajabee* with Amitabh Bachhan, and between the film *Memento* and the 2008 hit *Ghajini*, which made Rs2 billion (US\$40 million). More recently, planned Indian remakes of *My Cousin Vinnie* and *The Curious Case of Benjamin Button* have goaded their Hollywood owners into action to protect their IP.

A film as a whole is protected as a work, while underlying elements such as screenplays, lyrics, musical compositions, sound recordings, photo stills and set design also qualify for IP protection. A script or a set of lyrics is a literary work and the Copyright Act, 1957, prescribes certain exclusive rights, including the right to reproduce the work in any material form, or to adapt the work in order to make a film.

Film copyright is infringed if the recorded moving images constituting the film are copied, as in video piracy. The copyright in a film is not infringed if the subject matter of a film is remade as a new film; what

may be infringed in such a case are the script, screenplay and other underlying elements.

This is the tricky part; copyright law does not protect ideas in themselves, but the expression of ideas. While the central idea or theme of a story does not attract copyright protection, the protectable elements of a film include the textual aspect (the script), and non-textual aspects including the combination of situations, events and scenes which constitute the form, manner and working out or expression of the idea or theme.

As in the case of a film which copies a theatrical play, the substantial copying of a film’s script or unique sequenced plot elements may allow a court to find in favour of a plaintiff. The litmus test is the “lay observer test”, which ascertains if there is an objective similarity between two films. The test holds that there is copyright infringement if the viewer, after having seen both films, receives an unmistakable impression that the subsequent film is a copy of the first film.

For example, the verbatim reproduction of dialogues (even if translated), “frame to frame” copying or comparable sequencing of scenes and fleshing out of characters will lead to a finding of copyright infringement. Less-obvious copying will still face close examination by a court, but assessment is more difficult when there is only a non-textual copying allegation.

The remaking of foreign films in India has sometimes been ingeniously explained as “cultural copying”; as a

Both at home and abroad, fears over the country's weak enforcement mechanisms and sluggish judicial system weigh heavily on the minds of IP owners and their legal counsel.

Krishnamurthy acknowledges the system's failings but suggests they can be redressed through the better allocation of resources and the provision of appropriate training. "One of the main areas of concern with protecting IP in India is the lack of specialized courts to handle IP matters," he says. "I strongly believe that good precedents in IP are more likely with specialized courts comprising judges trained in the various types of IP. Specialized courts could possibly ensure faster disposal of IP matters."

Shamnad Basheer, professor in intellectual property law at the National University of Juridical Sciences in Kolkata, believes that the judiciary deserves more credit than it receives. "It's not that [judges] are stupid," he says. "They are trying really hardcore cases – dowry deaths and murders. When it comes to IP, they are blank. That's what should change."

prominent director allegedly said: "When you take an idea and route it through the Indian heart, it changes entirely." Such an opinion would probably fail to impress American director Quentin Tarantino, given that reports out of Los Angeles referred to Bollywood film *Kaante* as a "singing, dancing *Reservoir Dogs*".

In the case of *RG Anand v Delux Films*, the Supreme Court held that if two authors independently develop the same idea, there is no copyright infringement even if there are similarities, saying: "The fundamental fact which has to be determined [is]... whether or not the defendant not only adopted the idea of the copyrighted work but has also adopted the manner, arrangement, situation to situation, scene to scene with minor changes or superficial additions or embellishment here and there."

In *Barbara Taylor Bradford v Sahara Entertainment Ltd*, Calcutta High Court held that basic plots and characters were not protectable under copyright law. In this case Bradford sued Sahara for copyright infringement by their use of the plot, theme and characters from her novel *A Woman of Substance* in their proposed serial *Karishma – The Miracle of Destiny*. It was held that the mere similarities in plot lines and thematic resemblance did not lead to a conclusion of copying, and the court cautioned against over-protection, which could curb future original works.

In *Zeccolla v Universal Pictures*, Universal Pictures sought to restrain the exhibition and distribution of an Italian film, *Great White*, based upon similarities to the cult film *Jaws*. In hearing a challenge by the defendant to the granting of an interim injunction wherein he claimed that Universal could not assert a right on a genre film, the Federal Court of Australia held that, "In general, there is no copyright in the central idea or theme of a story or play however original it may be; copyright subsists in the combination of situations, events and scenes which constitute the particular working out or expression of the idea or theme. If these are totally different the taking of the idea or theme does not constitute an infringement of copyright."

Krishnamurthy suggests that rights owners should finance more training programmes for the IP enforcement departments of the police and customs. "This may in turn give impetus to an increase in *suo moto* actions by such agencies, without being a burden on the enforcement budget," he says.

### Education is key

Other observers echo Krishnamurthy's call for a greater emphasis on education. "Schools, teachers, press, television and theatres are all good places to spread awareness," says Anand Desai, managing partner of DSK Legal. "Most people don't understand what piracy is and are generally law-abiding."

Chander Lall, managing partner of Lall & Sethi, takes this assertion a step further, arguing that education is also required for IP owners, particularly domestic ones. "They are completely uneducated about it," he tells *India Business Law Journal*. "The level of understanding [by domestic

The court also observed that two questions were involved: the degree of objective similarity between the novel and the screenplay, and whether copying was established. The appeal court upheld the single judge's finding: there was such a marked degree of similarity between the two films that there was an inescapable inference of copying and that the respondent had an excellent chance of success at the trial.

Practically speaking, a suit for copyright infringement by a foreign copyright owner in India will likely be subject to the same standards. Were the tests outlined above to be applied to many Bollywood films that are defended by their creators as remakes, several would be likely to find themselves on the wrong side of the law.

The 2006 case of *Sholay Media & Entertainment Pvt Ltd & Anr v Mr Parag M Sanghavi & Ors* before the Delhi High Court – in which the Ram Gopal Verma film *Ram Gopal Verma Ke Sholay* was restrained from release due to copyright and trademark infringements in relation to the cult film *Sholay* – is a pointer that rights owners may no longer be willing to let things slide.

Regardless of whether some Bollywood films are classified as remakes or as cultural copies, the central issue of infringement remains.

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*Ameet Datta is a partner with Luthra & Luthra Law Offices' intellectual property law practice as well as its media practice and entertainment practice. He specializes in trademark, copyright and design prosecution, transactions and litigation, including film and music law, content aggregation and licensing issues. Datta has represented the Indian music industry's two copyright societies for the past eight years. His practice also includes tort-based litigation involving defamation, privacy and the right of publicity as well as disparaging advertising.*

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clients] is completely different [to that exhibited by foreign clients]. The level of conversation is completely different. With Indian clients, it's 'What is a trademark?' rather than a discussion about deceptive similarity. It is 'Why do I need to protect?', 'Can I get a worldwide registration?'"

Mahua Roy Chowdhury, an attorney at IP firm Solomon & Roy, believes that IP education should be extended to cover the moral and social responsibilities of rights holders. "India is a cost-sensitive market in which the majority of the population is unable to afford branded, copyrighted and patented products bearing a high price tag," she says. "Right holders have an equal responsibility in reducing costs, especially in terms of products of necessity."

## Different responses

While education is undeniably part of the long-term solution to India's intellectual property woes, the challenges facing IP owners in today's harsh economic environment demand more immediate solutions.

"Almost all clients have become extremely cost-conscious," says Ameet Datta, a Delhi-based partner at Luthra & Luthra. But while the need to cut costs may be universal, Datta has noticed that companies in different sectors are responding to the crisis in markedly different ways.

"Client attitudes differ across sectors," he says. "The

continuing need to protect and maximize IP continues to be looked at closely by the music and software industry. On the other hand, the manufacturing and even the hospitality sectors, in contrast to the good times, are wary about engaging in litigation and will often opt for relatively low-cost options such trademark oppositions and legal notices."

Milind Antani, head of the pharmaceuticals, life sciences and healthcare practice at Nishith Desai Associates, has also noticed different responses. "There is no slowdown in the pharmaceutical sector ... it's countercyclical and you're seeing IP-driven collaborations and ventures," he says. "Pharmaceutical companies are known to have large portfolios, so overall, they may decide to do away with unnecessary domain names if they have for example, 20,000 names registered, and they may also concentrate on fewer brands."

Basheer believes it is difficult to forecast how companies will adapt their IP strategies to cope with the global recession. "It's really hard to predict what kind of policies will be framed in this environment," he says. "The worst part is we don't know how long the downturn is going to last and how intensive it's going to be."

On a broader level, Basheer is reassured by the thought that the financial turmoil will bring creativity to the Indian market. "There will be a generation of more ideas – different ways of doing things. Innovation, innovation, innovation ... This is the only way companies can survive this downturn." ■

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# See you in court!

**Arbitration is gaining widespread popularity on account of its speed, neutrality and confidentiality. But in certain situations, litigation remains the best option, argues Sonal Godhwani of Aditya Birla**

**T**he purpose of international commercial arbitration is to keep dispute resolution out of the courts. Often, foreign investors do not trust the impartiality of local tribunals in India. This and other fears associated with litigation – a lack of familiarity with procedures and the differences in cultural approach and language – make court proceedings an unattractive option for most foreign investors.

Arbitration is therefore often favoured as an alternative method of securing impartial justice. It depoliticizes the settlement of investment disputes and promotes mutual confidence between the parties.

Various tests can be used to determine whether international arbitration is a feasible alternative to litigation. For example, in situations where one party to a contract has greater bargaining power than the other, the contract tends to be one-sided. In these circumstances, arbitration may be preferable as the courts will generally interpret the contract strictly.

In a case where the judicial and public perception of a company's goodwill has an influence, the choices may be different. If one company enjoys a better reputation than the other, the latter may hesitate to go to court, particularly if a jury trial is likely in that jurisdiction. While courts are expected to be impartial, reputation does have the potential to influence proceedings.

Litigation is often preferred by companies that enjoy greater economic power; those with lesser resources will probably prefer a settlement since arbitration at least ensures neutrality. It is therefore crucial for the less powerful party to ensure that adequate arbitration clauses are included in any agreements that exist. The clauses should specify that in the case of a dispute, the more affluent partner does not win a settlement on the basis of cost advantages.

If the parties are on an equal footing, disputes over commercial contracts of considerable value involve a high degree of examination, lengthy procedures and strict evidence requirements. Litigation is an appropriate choice in this situation, especially given that it accommodates persuasion. Arbitration, on the other hand, is an in-camera procedure which is preferable in non-material transactions because arbitrators do not conduct detailed examinations of every fact.

For contracts that involve large amounts of secret technical data (such as those relating to insurance, pharmaceuticals, shipping and the oil and gas industries), arbitration is the better alternative. It maintains confidentiality by keeping the dispute out of the public eye. Furthermore, the details of arbitral awards may only be published with the consent of all concerned parties.

Cost effectiveness is often cited as the primary advantage

of arbitration. However, this is true only for large and complex cases. For smaller cases, international arbitration is as expensive as transnational litigation. Additionally, one must consider the level of sophistication in the arbitral system, as well as the constitution of a tribunal for complex transactions, in order for disputes to be properly settled through an arbitration process.

Disputes related to intellectual property rights are usually dealt with through commercial arbitration. This route protects complex IP matters from the volatility of the litigation process and tends to be more predictable, efficient and amicable than litigation. Moreover, patent litigation requires court proceedings in every jurisdiction in which the patent has allegedly been infringed (the only exception being where the enforcement of IP depends on statutory authorities). This is an expensive and often impracticable prospect.

State-owned companies, which traditionally prefer to resolve disputes in local courts, are now taking strides to include arbitration clauses in their contracts. However, when a state-owned entity is the dominant partner in a transaction, litigation remains the preferred course of action.

An important consideration in any dispute resolution process is the time that will be needed to reach a conclusion. This depends to a large extent on the propensity and quality of any counter-claims that are likely to arise. If the courts consider such counter-claims to be subsets of the main issue, litigation is likely to be the best option. However, if each counter-claim constitutes a separate suit, it becomes imperative to assess them individually and to choose between litigation and arbitration for each particular case.

Another factor that must be considered is the reputation and maturity of the courts in each relevant jurisdiction. If the judicial system is generally efficient, litigation may be the preferred option. However, in countries such as India, where court cases have the potential to drag on for many years, arbitration becomes more attractive to parties looking for a speedy resolution.

For this reason and others, arbitration has boomed in India over recent years. It offers the finality of the judicial process coupled with procedural flexibility, speed and confidentiality. Yet, for certain types of dispute, litigation remains the more attractive option.

It is important to select the battleground wisely before proceedings commence. ■

*This article was jointly written by Sonal Godhwani and Devangee Ganatra from the corporate legal cell at Aditya Birla.*



# Survival of the fittest

## George W Russell investigates how Indian law firms are faring in the economic downturn

India is bracing itself for a tough year. For the past few months, both the government and private sector had expected the country to dodge the worst effects of the global downturn. It might still do so, but there's no doubt a storm is gathering. The governor of the Reserve Bank of India, Duvvuri Subbarao, warned in late April that the economic recession would continue through 2009 and could well extend until mid-2010.

While the country's heavily regulated banking industry

looks set to weather the worst effects of the storm, corporate India is taking a beating. A survey by Mumbai-based ET Intelligence Group of 169 major companies reporting first-quarter results showed an overall 6% fall in revenues, the first decline since the downturn began last year.

The International Monetary Fund (IMF) expects India to be cushioned by domestic consumption, which accounts for about 65% of GDP. "India has much less of

Niche firms which have solely engaged in capital markets-oriented work or the banking and finance practice area have suffered in recent times

Abhishek Saxena  
Partner  
Phoenix Legal



a need to do any rebalancing, as there is already a significant contribution to growth from consumption,” says Kalpana Kochhar, deputy director of the IMF’s Asia and Pacific department.

### Hopeful but cautious

While India’s financial services sector has been relatively unscathed, lawyers are concerned that the contagion could spread to India’s core service industries. “The economic crisis is beginning to impact the information technology sector,” says Pavan Duggal, head of Delhi-based law firm Pavan Duggal Associates. “Technology companies are now being very careful of what they are spending.”

Indian law firms have so far avoided the carnage that has struck their US counterparts, but lawyers are keeping an eye on current events. “It is a time of uncertainty for all and a period of concern for most,” says Shrikant Hathi, a partner at Brus Chambers (formerly known as LEX Nexus) in Mumbai. “The global financial crisis is taking its toll in all sectors.”

In spite of the uncertainty, there are no signs that an

During the past few months we did face issues with regard to timely recovery of our bills

Rajiv Luthra  
Managing Partner  
Luthra & Luthra



across-the-board slump is imminent. “Our country’s economy has been largely independent and self-reliant and the economic crisis has not affected us the way it has affected the rest of the world,” says Germaine Pereira, a lawyer with Solomon & Co in Mumbai.

Yet many firms are bracing themselves for declining billings – as well as a host of niggling problems such as client defaults, unpaid invoices, salary caps, vanishing bonuses and tougher haggling over fee structures – until there’s a general recovery. The slowdown is also having a severe effect on recruitment patterns. (See *Reversal of fortune*, page 30.)

### Optimism prevails ... if you have Indian clients

Most firms say, overall, they’re doing better than expected. In many cases, practice areas that have evaporated – particularly capital markets work – have been offset by boosts in downturn-related transactions, such as restructuring and dispute resolution. “The impact on our firm is more or less revenue-neutral, even though some practice areas like capital markets and securities have fallen by up to 90%,” says Joseph Pookatt, a senior partner with APJ-SLG Law Offices in Delhi.

We have not been impacted overall

Rabindra Jhunjunwala  
Partner  
Khaitan & Co



However, there is a distinct divide between firms that concentrate on international clients and those with a primarily domestic focus. “Firms with 100% US clientele or even firms specializing purely in capital markets may suffer the most during the year ahead,” says Sajjan Poovayya, managing partner of Poovayya & Co in Bangalore and chairman of the Karnataka State Council of the Federation of Indian Chambers of Commerce and Industry.

Firms that have invested in India’s burgeoning domestic market are unmoved by the fissures in the global economic landscape. “There is no crisis,” insists Jos Chiramel, managing partner of Chiramel & Co in Delhi and a leading Supreme Court advocate.

“There is no effect on our practice,” concurs Sameer Rastogi, a partner at India Juris, also in Delhi. “Our revenues in the fiscal year 2008-09 have increased twofold from the previous year.”

Geographical location is also a key factor. Aswin Gopakumar, a partner with Veritae Legal in Kochi, credits

# Reversal of fortune

**Indian lawyers who raced abroad in search of meaty roles on landmark deals have come crawling back home for stability, security and legal opportunities**

A spot check of the associates' computers in any Indian law firm would reveal dozens of résumés on file and in sent email folders full of job applications. Indian lawyers have long been eager to leave their often cramped and crumbling offices for a more glamorous and rewarding life abroad.

Singapore has been among the preferred destinations. An affluent city, it's a direct flight away, operates under a familiar common-law system and has an Indian-diaspora community that can provide the social, religious and culinary comforts of home.

So it was with some surprise that Shrikant Hathi, a partner at Brus Chambers in Mumbai, opened his mail recently to find applications from young Indian lawyers in Singapore keen – or possibly desperate – to return home.

Until 2008, Singapore firms had been growing exponentially, helped by heavy recruitment from India. "A lot of firms were hiring anyone with a law degree and a pulse," Stefanie Yuen Thio, joint managing director of TSMP Law Corporation, told Singapore's *Business Times* newspaper recently.

But as the financial crisis tightens its grip on the Lion City – GDP in the first quarter of 2009 fell nearly 20% year-on-year – those firms are finding themselves overstaffed. Drew & Napier, one of Singapore's largest firms, has hung a "no vacancies" sign on its website, while associates at other major firms are scrambling for jobs at smaller boutiques.

As Singaporean nationals will have first crack at the sharply reduced legal employment pool, returning home is the only option for many Indian associates. However, major Indian firms such as Amarchand Mangaldas and AZB & Partners have already put the brakes on hiring. "The downturn is certainly having an overall adverse effect on the domestic recruitment market for lawyers, whether or not law firms admit this," says Vijay Sambamurthi, managing partner of Lexygen in Bangalore.

Many Indian lawyers, having tasted international life even briefly, return only reluctantly. "Most of the lawyers laid off in foreign jurisdictions are not willing to come back to India," says Kaushal Shah, name partner in Mumbai firm Kaushal Shah & Associates. "They would rather wait there with some odd jobs and hope to get recruited once the markets improve."

Others are not even waiting for the pink slips to land. Rajiv Luthra, founder and managing partner of Luthra & Luthra in Delhi, says this year's surge of applications from Indian lawyers at foreign firms has turned into a flood. "These applications are not from just lawyers who have been laid off from foreign firms,

but also from those who seem to be quite secure in their jobs."

Of course, most lawyers don't admit they were retrenched. "Nobody tells you whether they were laid off; they simply say they left by choice," observes Chander Lall, managing partner at Lall & Sethi in Delhi. Lall says he knows several Indian lawyers who returned home willingly. "They have all got very good jobs here in India and seem generally happy with their decision, which seems to be based on the premise that India is most likely to survive these difficult times."

A glut of Indian lawyers would inevitably affect pay scales, lawyers say. "The high figures for which freshers were being recruited earlier have given way to a more realistic assessment of their value," says Pavan Duggal, who heads Pavan Duggal Associates in Delhi. "I believe that the downturn will help rationalize remuneration structures in the domestic recruitment market."

Several Indian firms see the downturn not only as an excuse to pick up Indian lawyers with overseas experience cheaply, but also to staff up with foreign consultants, although lawyers appear to be unclear on the legal status of such recruitment.

Diljeet Titus, senior partner at Titus & Co in Delhi, says his firm recently hired lawyers from top US firm Gibson Dunn & Crutcher, while Gaurav Dani, a partner at Indus G&D Law in Delhi, says his firm hopes to soon acquire at least three British associates.

However, Majmudar & Co, which has also been approached by foreign lawyers, sees considerable bureaucratic obstacles to hiring such professionals. "Considering the Bar Council of India restrictions, it is very difficult to entertain these applications," says managing partner Akil Hirani in Mumbai.

Despite such potential barriers, reports of India's relative stability have spread far and wide: Anand Desai, managing partner of DSK Legal in Mumbai, says he has received job applications from both French *avocats à la cour* and Vietnamese *luat su* in recent weeks.

One application to Brus Chambers came from a Bangalore University graduate recruited by a top Singapore firm, who cited an impressive list of transactions. "My long-term plan is to return to India permanently and work in a reputed firm like yours," the hopeful associate wrote to Hathi.

Despite the lawyer's international exposure, her Indian English usage of "reputed" in the sense of "reputable" suggests she hadn't left her home country too far behind.

his out-of-the-way location as a plus. “We are yet to feel the pinch of the economic recession,” he says. “This may be because our firm is based out of a tier-two city which is yet to be penetrated by the waves of recession.”

For firms more exposed to international markets, a dearth of credit, slowing cross-border capital flows and a long pause in initial public offerings have been the downturn’s most noticeable effects. “Niche firms which have solely engaged in capital markets-oriented work or the banking and finance practice area have suffered in recent times,” Abhishek Saxena, a partner at Phoenix Legal in Delhi, tells *India Business Law Journal*.

Some firms are hurting because of setbacks for clients in the harder hit areas of the world. “European small and medium-sized enterprises have shelved their investment plans in India,” says Praveen Agarwal, managing partner of Delhi-based Agarwal Jetley & Co. “One Finnish company and another US company in India are already closing.”

**Clients put the squeeze on legal fees**

Both Phoenix Legal and Delhi-based law firm The Practice acknowledge that fees have fallen, while Agarwal reports at least three clients asked his firm to reduce its monthly retainers. “The billing rates have been affected on an average by 20% to 35% on account of the economic downturn,” says Anupam Tripathi, chairman and senior partner of The Practice.

While the real estate work may have diminished, advisories on restructuring or unwinding transactions have more than compensated for it

Bob Werner  
Chief Information Officer  
Dua Associates



Other firms concede they have frozen their rates for the foreseeable future. “We have not raised our billing rates from last year and not planning to do so for another year,” says Vipul Bhuta, a partner with Aditya & Associates in Mumbai.

Meanwhile, some clients have been dragging their feet over their existing legal bills. “During the past few

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While some law firms have downsized, I doubt there will be any closures or significant consolidation

Marezban Bharucha  
Founding Partner  
Bharucha & Partners



months we did face issues with regard to timely recovery of our bills,” notes Rajiv Luthra, founder and managing partner of Luthra & Luthra in Delhi. Amir Singh Pasrich, managing partner of Delhi firm International Law Affiliates, adds: “A few clients, especially in the United States and Europe, have been badly affected but only one Italian client significantly delayed our payments.”

Many firms are meeting fierce resistance on future billings with clients preferring a lump-sum per-project payment to billable hours. “While the billing rates have not been affected, we have seen clients preferring an upfront estimate of fees prior to the beginning of an assignment,” says Sonali Sharma, a partner at Mumbai-based Juris Corp.

### Returning to core competencies

With the prospect of reduced revenues, many law firms are scrambling to adjust, whether a large firm with a flexible team, a medium-sized player with the capacity to refocus on more lucrative practice areas, or a small boutique that can play to its core strengths.

Larger firms have the flexibility to reassign staff from poor-performing practice areas to busier ones. “While the economic downturn has negatively affected some practice areas, like capital markets, real estate and partly private equity work, we have not been impacted overall,” says Rabinendra Jhunjunwala, a partner at Khaitan & Co in Mumbai. “In fact, practice areas like litigation and restructuring are on the rise.”

Some firms say they made decisions before the downturn that could serve them well during it. DSK Legal in Mumbai moved away from private equity, M&A and real estate towards dispute resolution relating to complex commercial transactions. “This strategy has worked well in view of the disputes in the area of derivatives and disputes between investors,” says managing partner Anand Desai.

A strong specialization can also be an advantage: Intellectual property firms are seeing a shallower downturn. “Firms such as ours that are IP boutiques and have a very strong domestic client base have been less affected,” says Himanshu Kane, the managing partner of

WS Kane & Co/Law & Prudence in Mumbai.

Firms focusing on what are traditionally under-represented sectors in India have also seen growth. “Since we are in a niche field of maritime law the downturn has not really affected us,” says Adil Patel, a partner with Bhatt & Saldanha in Mumbai. “The inflow of work in the past few months has, in fact, increased considerably.”

While traditional information technology industries have been hit by slowing demand from the developed world, new technologies hold promise. “We have focused on developing our niche areas of media and entertainment, life sciences, high-end engineering, and technology,” says Manoj Ladwa, a partner with MLS Vani & Co in Mumbai.

### Upswings in the downturn

Recessions always prompt higher levels of litigation and alternative dispute resolution work. “The firm has experienced a much larger number of queries resulting in engagements in the arbitration and mediation practice area,” says Bob Werner, chief information officer at Dua Associates in Delhi.

“While the real estate work may have diminished, advisories on restructuring or unwinding transactions have more than compensated for it,” he adds (see *Rebuilding corporate India*, page 35).

Restructuring and insolvencies have been gathering momentum, particularly in airlines, retail and financial services, notes Arihant Jain, an advocate at OP Khaitan & Co in Delhi. “Equity financing is another opportunity. As bank lending and capital markets have been much quieter, companies that would have previously been refinancing in their ordinary course haven’t been renewing debt and refinancing.”

Jain adds that structured finance is another area of opportunity, especially in infrastructure and energy projects. “Since these are long-term projects, the ups and downs of the market will not have an impact on them,” he says. “Project finance, being immune to the economic cycle, will carry on.”

One radical solution for law firms finding themselves with reduced billings is to refer more of their “plain vanilla” workload to legal process outsourcers (LPO).

Postpone expansion plans, strengthen client relationships and enhance training opportunities for employees

Sunil Seth  
Senior Partner  
Seth Dua & Associates



“A lot of legal work from countries like the US or the UK is being outsourced to India from a cost perspective,” says Huzefa Nasikwala, a partner at Juris Corp in Mumbai. “LPOs are increasing their size as a result of this.”

## The offshore option

Lawyers say that while the US sub-prime crisis affected the fortunes of Indian IT firms which had clients with mortgage exposure, American law firms have begun offshoring credit-crisis-related work.

“When the pressure in the corporate world in the US and Europe is to cut budgets and reduce costs, it is a huge opportunity for the legal process outsourcing industry in India and for the Indian law firms,” says Rajiv Tuli, a partner at Mars & Partners in New Delhi.

On the other hand, notes Prashant Ajmera, name partner at Prashant Ajmera & Associates in Ahmedabad, “A major worry for India LPOs is that if there is not much corporate work that foreign law firms generate in their respective countries, what will be outsourced to India if this economic downturn continues or worsens?”

## Separating the wheat from the chaff

Most Indian lawyers agree that the recession is unlikely to force any law firm closures or mass layoffs unless it is prolonged.

“While some law firms have downsized, I doubt there will be any closures or significant consolidation,” says Marezban Bharucha, founding partner of Bharucha & Partners in Mumbai.

A lengthy downturn, however, could change the legal landscape considerably. “We foresee major alignment of firms, including mergers or takeovers,” says Abhishek Saket, managing partner of Infini Juridique in Delhi.

Mergers are not necessarily a bad thing, lawyers say. “The consolidations also help in getting the best talent under one roof,” says Amarjit Singh, who heads Delhi-based IP boutique Amarjit & Associates.

In the meantime, law firms are concentrating on either avoiding the crisis or minimizing its impact.

Sunil Seth, senior partner at Seth Dua & Associates in Delhi, urges firms to formulate a strategy to combat the downturn. “Postpone expansion plans, strengthen

## Letting staff go is destructive and has to be seen as a last resort

Neeraj Tuli  
Managing Partner  
Tuli & Co



client relationships and enhance training opportunities for employees,” he advises.

More than a few firms see an upside to the downturn. “The ‘creamy layer’ of Indian law firms are increasingly looking towards the Indian market to sustain themselves in contrast to the previous approach of primarily handling an overseas clientele,” notes Vivek Durai, a partner at Atman Law in Chennai.

“The crisis itself may induce a wave of professionalism that has so far been lacking amongst the majority of firms.”

Ashwin Matthew, a partner at Khaitan & Co in Mumbai, puts it more bluntly: “It will help separate the grain from the chaff. Increased efficiency will be the key to sustainability.” Prem Rajani, who heads Rajani Associates in Mumbai, adds that “Once the crisis is over, the Indian law firms will bounce back with a vengeance.”

## Light at the end of the tunnel?

Some law firms believe the extent of the downturn has been overstated. “It did affect us for some time, when the hype of there being an economic crisis was at its peak,” says Vineet Bhagat, managing partner at KG Bhagat & Co in Delhi. “Now that the worst is behind us, people have resumed their normal lives.”

Indeed, there is no shortage of optimists who already see an end in sight. “We are confident that corporate practices at several large law firms should get busier after the general elections in India or at most by the last quarter of this year,” predicts Jitendra Sharma, who heads JM Sharma & Co in Delhi.

Other lawyers warn against overreacting. “If the downturn has affected firms, it has to be seen as an opportunity to restructure and prepare for the inevitable turnaround,” says Neeraj Tuli, name partner at Delhi insurance boutique Tuli & Co. “Letting staff go is destructive and has to be seen as a last resort.”

Meanwhile, Ajesh Kumar S, chief of AKS Law Associates in Bangalore, concedes he has “become tight on budgets and reigning in costs” but advised his staff to prepare for the end of the recession. “I have sat with all our colleagues and explained to those wanting to get married or have kids to do so now ... as they won’t have time later.” ■

## Now that the worst is behind us, people have resumed their normal lives

Vineet Bhagat  
Managing Partner  
KG Bhagat & Co





# Rebuilding corporate India

## Law firms retool as their clients restructure and refinance their operations

*Alfred Romann reports*

**S**ome India-focused lawyers are twiddling their thumbs these days. It's a far cry from the same time last year, when they were in demand like never before.

Cash-strapped and shell-shocked by the financial crisis, their corporate clients are exercising extreme caution before engaging in any deal-making. When they do invest, they are demanding higher returns and greater financial guarantees.

"You see a lot of contemplation but little fruition," says Abhijit Joshi, a partner at AZB & Partners in Mumbai. "People want to acquire but confidence is low."

As one might expect, the legal discipline that is bucking the trend is that of restructuring and refinancing. "We have

seen significant growth in the restructuring and refinancing areas," says Anand Pathak, managing partner of P&A Law Offices. "Bank refinancing has become essential because of a decline in sources of funding to mitigate the financial pain of companies in the downturn."

Not surprisingly, Indian and international law firms have been fast to retool in order to grab a slice of the action. Amarchand Mangaldas, Allen & Overy, AZB & Partners, Clifford Chance, J Sagar Associates, Khaitan & Co, Linklaters, Luthra & Luthra, Norton Rose, O'Melveny & Myers, Sidley Austin and White & Case are just a few of the major firms that are recommended by clients for their excellence in this highly demanding field of practice.

## White & Case was ranked one of the top-tier international firms for India-related work.

—*India Business Law Journal (2008)*

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“2008 Restructuring Deal of the Year”

—*IFLR Asian Awards, 2009*

“2008 Infrastructure Acquisition of the Year”

—*Infrastructure Journal, 2009*

“2008 M&A Deal of the Year”

—*Asian Legal Business, 2009*

“2008 India Asset & Corporate Finance Deal of the Year”

—*Asian Legal Business, 2009*

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## You see a lot of contemplation but little fruition

Abhijit Joshi  
Partner  
AZB & Partners



### Growth industry

The shuffling of money and assets, the sudden need to extend payment periods or alter terms and the credit crunch in general have created “an unprecedented spurt in [restructuring and refinancing], and also in disputes,” say lawyers at Juris Corp, a finance-related boutique firm in Mumbai. The firm’s existing restructuring practice has been bolstered by the reallocation of staff from areas of law left languishing by the crisis, and by the addition of new recruits.

In New Delhi, Luthra & Luthra has also seen a shift in the type of work on offer, with restructuring and refinancing now considered a major growth industry in the legal profession.

“The slowdown in the global and Indian economies has led to a definite spurt in the volume of work in these areas over the last few months,” says managing partner Rajiv Luthra. The firm has supplemented this practice area with lawyers moved from other practice groups, such as the capital markets team, to meet client needs.

An additional growth area for lawyers is the trend for promoters of Indian companies to take advantage of low valuations to reacquire their shares. When valuations were high, companies were comfortable to have well-spread shareholdings, but as markets dropped, anxiety rose over the possibility of hostile takeovers. Some companies have gone further, seeking to turn low share prices into an opportunity to delist. “I’m actually working on a couple of projects where companies are looking at exactly that,” says Gautam Bhat, a partner at Thakker & Thakker in Mumbai.

Sumes Dewan, a partner at KR Chawla & Co, says economic changes have prompted the creation of new financial structures. One of his clients, packaging giant Uflex, sought to buy back foreign currency convertible bonds (FCCBs), while another, Spice Group, worked on refinancing with investors and restructured an acquisition in Malaysia only six months after the original deal had been completed.

Dewan says his firm has also been handling more litigation-related matters, not least those in which foreign investors are seeking to end their joint ventures with local partners, as Purchasing Management International of the US did with India’s Royal Kapsons Hospitality.

Surprisingly, the surge of restructuring has not been accompanied by a corresponding increase in insolvency

work, a testament perhaps to the underlying strength of India’s major corporations and financial institutions. Ironically, it is the country’s relatively protectionist economic policies – widely lambasted until just a few months ago – that are now being credited by many observers for shielding the Indian economy from the worst effects of the global downturn.

Speaking in Hong Kong last month at a restructuring conference organized by Allen & Overy, Karan Singh, a partner at Trilegal, told delegates that Indian regulators had been fairly nimble in dealing with the financial crisis. He also suggested that the country’s economic policies, including minimum terms for investment and the curtailed convertibility of the rupee, had helped it cope with the downturn better than many other jurisdictions.

In spite of this, dwindling capital inflows, shrinking foreign exchange reserves, weakening exports and a depreciating rupee are conspiring to keep growth in check. The Asian Development Bank estimates that Indian GDP will grow by just 5% in 2009, a far cry from the 7.1% recorded last year. As a result, the country may have to rely on monetary and structural policies to stimulate economic activity.

### Realigning expectations

Cost-cutting is a top priority on all agendas, with many Indian corporations now paying the price for over-ambitious expansion strategies in the recent past.

“The euphoria and unrealistic growth expectations from the boom period caused several Indian corporates to over-leverage to such an extent that their interest payment obligations exceeded their revenue generation, especially in the real estate sector,” says Pathak. “Refinancing has become the mantra today to align expectations with the realities of the global downturn.”

Unlike many of their international counterparts, India’s banks remain flush with cash and the country’s debt market has plenty of depth. For evidence, look no further than Tech Mahindra, which was successful in obtaining sufficient funding to acquire troubled outsourcing company Satyam. But despite the relative good health of India’s financial sector, the banks are in cautious mood.

“Indian banks will remain reluctant, in the short term,

## The slowdown in the global and Indian economies has led to a definite spurt in the volume of work in these areas over the last few months

Rajiv Luthra  
Managing Partner  
Luthra & Luthra



# Juris Corp

*Established in 2000*

**Key practice areas:** Capital markets and securities transactions; corporate banking; corporate finance including M&As, takeovers and corporate restructuring; derivatives; insurance; money markets; mutual funds and other collective investment schemes; private banking products; private equity; securitization; venture capital; structured finance and investments; structured products; corporate and commercial laws; competition law; direct taxation; dispute resolution; information technology law; intellectual property rights; IT-enabled services; property and real estate laws

**Number of partners:** 7

**Of counsel:** 3

**Number of associates:** 25

**Principal office:** Mumbai

**Languages spoken:** English, Hindi and other Indian languages

Juris Corp, founded in October 2000 by Mr H Jayesh, is a law firm that has been formed with the objective of providing superior legal services and advice to all class of financial intermediaries. The firm is a full service law firm with financial services as the core practice areas. The firm's clientele consists primarily of global banks, financial institutions and investment banks.

A distinctive feature of the firm is its philosophy and ability to be proactive in its approach and its endeavour to assist clients in achieving their transaction objectives. In addition to highlighting the legal and regulatory issues, the firm identifies potential risk mitigants and assists clients in restructuring transactions so that the transaction objectives can be achieved. Juris Corp believes that a problem solving approach, when combined with a multi-disciplinary understanding of issues, can achieve the transaction goals in a more effective manner within the given constraints.

The firm pre-emptively researches new and emerging areas and developments and ensures that it keeps itself abreast of market developments, including in other jurisdictions. In recognition of the firm's work Mr H Jayesh has been consistently recognized as one of Asia's leading lawyers.

## **Our objective**

Our objective is to become *the* law firm in more areas of practice and to be *the* preferred law firm for select clients. Juris Corp has within its clientele a diverse range of clients from the financial services markets, from global banks and investment banks, mutual funds, fund managers and underwriters and other financial intermediaries to media and entertainment companies to community trusts.

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## Refinancing has become the mantra today

Anand Pathak  
Managing Partner  
P&A Law Offices



to fund acquisitions by Indian companies outside India unless the value proposition is compelling,” says Pathak. “The recent funding by Indian banks of a number of foreign acquisitions has exhausted their appetite ... unless the global markets show signs of an upswing, Indian financial institutions will remain cautious.”

### International interest

Foreign law firms have also witnessed an increase in India-related restructuring work. However, most of the foreign firms contacted by *India Business Law Journal* declined to comment on their corporate restructuring portfolios.

Despite the opportunities that the current situation undoubtedly presents, law firms are wary of associating themselves with bad news. During happier economic times, international law firms and their corporate clients were eager to trumpet their achievements, but in times of adversity, very little is said. Law firms use the overarching shield of client confidentiality to explain their reticence. Corporates, meanwhile, assert that any association or link to restructuring or refinancing will likely get an adverse reaction in the local media and send their share prices tumbling.

As one well-known lawyer noted: “Clients do not wish to be named because of the adverse perception in the local media, the adverse impact on stock prices of public disclosures, morale among employees and the spiral and feeding frenzy such disclosures generate among analysts, lenders and sections of the financial press.”

One firm that has been unable to keep out of the public eye is White & Case. It represented Lehman Brothers on the US\$70 million sale of the investment firm’s India business to Nomura Holdings, one of the highest-profile restructuring deals of 2008. The collapse of Lehman kept White & Case in the spotlight when it worked on the restructuring of a US\$130 million investment in KSK Electricity Financing India, which included a pre-IPO investment in KSK Energy Ventures, a power developer that later listed on the Bombay Stock Exchange and the National Stock Exchange of India in 2008.

White & Case has seen a considerable rise in India-related restructuring and refinancing cases, but little in the way of insolvency instructions. Much of the work is being handled by the firm’s India teams in Singapore, London and New York.

Gautam Bhattacharyya, a partner at Reed Smith, has also noticed a changing workload: “We have seen an increased amount of work flowing from issues arising out of existing loans, with particular work arising out of loan covenant compliance by borrowers, especially financial ratio covenants,” he says. “A number of banks are taking a much harder line with borrowers than prior to the onset of the current financial crisis.

“In difficult financial times ... our relationships with our clients and colleagues in India are more important than ever,” Bhattacharyya says. “It is now that our clients and colleagues in India need us the most and when relationships are even further strengthened.” Indeed, most of the new work at Reed Smith is being handled by the firm’s India group.

### Innovative structuring

Other international firms also see India as a bright spot in the international gloom. A recent survey conducted by Allen & Overy found that 24% of global investors regard India as their favoured destination, ahead of China (15%) and Russia (8%).

But while investors may be forthcoming with their enthusiasm, they remain reluctant to part with their money. Those that are participating in new ventures are demanding stronger guarantees than they would have accepted a year ago.

This posed a difficult challenge in a recent deal handled by Delhi-based law firm KR Chawla & Co. India China Pre-IPO Equity (Mauritius) sought to acquire a stake in Tessolve Services. The deal involved the purchase of both equity shares and preferences shares in the Indian company by the Mauritius-based entity. However, given the current level of economic uncertainty, the investor demanded a guarantee that if the valuation of the target company fell below a certain level, it would be issued more equity at no additional cost.

Both the Companies Act and the Foreign Exchange Management Act restrict this type of guarantee by prohibiting the issuance of shares at zero cost or below market value. KR Chawla & Co bridged the impasse by devising a structure in which part of the investment was used for shares and the rest kept as a share application. This seemed set to work, but as soon as the deal was closed the Reserve

It is now that our clients and colleagues in India need us the most

Gautam Bhattacharyya  
Partner  
Reed Smith



Bank of India circulated new rules requiring the mandatory issuing of shares within 180 days of an application, or the refund of the money. Since the valuation of the company had not dropped, the owners of Tessolve were reluctant to issue new shares that would dilute their own holdings.

The solution, says Sumes Dewan, a partner at the firm, was to alter the original structure, taking the money earmarked for the share application and putting it towards preference shares and an agreement of a low dividend. The guarantees were kept through an agreement that, if the value of the company fell, the preference shares could be converted to equity shares.

### Nimble and responsive

Indian firms are learning to deal with sudden changes in market conditions. Their relatively small size and natural inclination towards providing full-service legal advice gives them an advantage when it comes to the rapid reassignment of lawyers to new practice areas.

“Generally, lawyers are still nowhere near as specialized as in the US or UK, so our lawyers who have dealt with such matters in the past are refocusing on these matters,” says Anand Desai, managing partner of DSK Legal.

Desai’s firm has seen a number of such transactions. It has advised private equity funds on the restructuring of their FCCB repayments, on one occasion though the issuing of bonds.

At P&A Law Offices, Pathak agrees that Indian firms are flexible. His firm has hired new junior associates to handle

the increase in restructuring work, while more senior lawyers have simply expanded their portfolios. However, he points out that Indian firms rarely work on their own to restructure large corporate houses; rather, they often act as the local counsel of foreign law firms.

Meanwhile, firms like FoxMandal Little, which are large by Indian standards, are utilizing lawyers from less active practice groups to keep pace with demand in busier ones. “We often borrow lawyers from other practice areas, for instance company secretaries, general corporate law, mergers and acquisitions, to assist us in restructuring and refinancing matters,” explains partner Vineet Aneja. “We have had a few transactions, including an intra-group corporate restructuring for a listed Indian company.”

The scramble to reassign lawyers from languishing practice areas to newly active ones has gone some way to keeping India-focused legal professionals busy. However, restructuring alone has been unable to pick up all the slack.

One casualty of the downturn has been India’s legal recruitment market, which until recently was fiercely competitive. “A year or two ago, lawyers were able to name their price and there was a lot of competition,” says Bhat. “Obviously, we are more cagey now and we don’t release that information so easily, but nevertheless, you haven’t seen in Mumbai the kinds of layoffs that you have seen elsewhere.

“We remain very busy doing M&A and acquisition work,” Bhat continues, “but the deals are not the same as they were.” ■

## AZB & Partners

*Established in 2002*

**Key practice areas:** Mergers and acquisitions, real estate, capital markets, project finance, litigation, intellectual property, etc

**Number of partners:** 19

**Number of associates:** Approximately 230

**Principal office:** Mumbai

**Additional offices:** New Delhi, Bangalore, Pune

**Languages spoken:** English, Hindi, Kannada, Punjabi, Marathi, Gujarathi

AZB is a full service law firm with offices in Mumbai, Delhi, Bangalore and Pune. The firm has approximately 250 lawyers.

AZB & Partners has been awarded the Indian Law Firm of the Year 2008 in the corporate practice by the ACQ awards 2008 and has been named as Asian Counsel’s India Firm of the Year 2008 for Anti-Trust. AZB has been awarded the M&A Asia Award for the Legal Advisor of the Year 2008. AZB has also won the prestigious award in India Business Law Journal’s 2009 Indian Law Firm Awards in many categories.

Members of the firm prioritize the development of specialized legal skills through comprehensive professional training programs and appropriate involvement in transactions. Substantial inventory and partner time is invested in internal training to develop high quality human resources.

Our senior partner Zia Mody was awarded “Business Woman of the Year” by *The Financial Express*, selected as one of the 25 Most Powerful Women in Indian Business by *Business Today* in 2004, 2006 and 2007, one of India’s 100 Most Powerful CEOx by *The Economic Times* in 2004, 2005, 2006, 2007 and 2008. She was also nominated as one of the world’s leading practitioners by *The International Who’s Who of Private Funds Lawyers* in 2006 and 2008.

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# The perils of patent outsourcing

## Innovators and law firms that outsource their patent drafting to India risk falling foul of US export regulations

*Peter Ludwig explains*

In recent years, legal process outsourcers (LPOs) have become an integral part of the global legal profession. Although initially treated with scepticism by the mainstream legal establishment, LPOs are increasingly embraced by corporate clients – and sometimes even law firms – that are seeking to rein in expenditure in the face of the global financial downturn.

The outsourcing of intellectual property projects – such as patent drafting and prior-art searches – is one of the fastest growing sectors of the burgeoning LPO industry. The reason is clear: the cost of patent drafting can be lowered by up to 75% when done by an LPO instead of by a US patent practitioner.

Even the American Bar Association, in a recent ethics opinion, has acknowledged that “the outsourcing trend is a salutary one for our global economy,” enabling law firms to “effectively and efficiently” represent clients.

Outsourcing the critical task of patent drafting, however, is not as simple as one might think. Problems often arise even before the LPO has started working on the project. One of the most common stumbling blocks is the fact that

patent outsourcing often requires an export licence.

For example, an export licence is required when any information about US-based technology is transferred to a foreign national, even if the foreign national resides in the US.

### The export trap

While there has not yet been a case brought by the US government regarding the outsourcing of patent drafting work, this is not to say the issue has been overlooked.

On 23 July 2008, the US Patent and Trademark Office (USPTO) expressed its concern over the practice, stating that “[a] foreign filing licence from the USPTO does not authorize the exporting of subject matter abroad for the preparation of patent applications to be filed in the United States.” The USPTO emphasized that in order to outsource patent drafting work, inventors and patent practitioners must abide by the Export Administration Regulations (EAR) promulgated by the Bureau of Industry and Security (BIS). Following this notice, it is highly likely that the US government will begin to file suits against outsourcers of patent

drafting material who do not abide by the EAR.

Export is defined as any "transmission of items subject to the EAR out of the United States", or any release of technology to a foreign national inside the US. It may take the form of a visual inspection of US-based technology by a foreign national, an oral exchange regarding the technology or the application of US-owned technical expertise in a foreign country.

The determining variables as to whether an export licence is necessary under the EAR are: (1) whether there is full disclosure of the technology; (2) the specific location of the exportee; (3) the identity of the exportee; (4) the specific end-use of the technology; and (5) the commercial activity of the exportee. With these facts and a proper understanding of the EAR, it is possible to determine whether a licence is necessary to export the technology to a foreign entity without needing to consult the BIS.

## Penalties for EAR violations

Violations of the EAR may attract both civil and criminal penalties; these are not mandatory, but chosen at the discretion of the BIS. Criminal charges apply only to deliberate violations. Civil penalties may include fines, denial of export privileges and exclusion from practice before the BIS. While fines will not exceed US\$50,000 per violation, a violation is defined as a single illegal transmission of technology. In the current global work environment, where patent drafting material is typically sent to several persons, this penalty can quickly reach a substantial amount.

A potentially more serious loss for an exporter in violation of the EAR is of the right to file for a patent in the US for the specific technology involved. The EAR states that items that have violated, or are intended to violate, the export rules "are subject to being seized and detained ... [and] subject to forfeiture". Depending on the value of the patent and the extent of export violations, the loss of patent rights may be more painful to endure than any monetary penalty imposed by the BIS.

In determining a penalty, the BIS takes several factors into account, including: (1) the degree of wilfulness; (2) the destination involved; (3) whether or not the initial violation resulted in multiple violations; (4) the timing of the settlement; (5) related criminal or civil violations; and (6) specific mitigating and aggravating factors. For example, if a violating party has an effective export compliance programme that demonstrates a genuine effort to comply with the EAR, that would be considered a mitigating factor. Therefore, to minimize potential penalties, parties should be able to show a good-faith effort to comply with the EAR.

## Publishing patent drafting disclosures

Technology that is already published and therefore generally accessible to the interested public is not subject to the EAR. However, patent practitioners may run into other problems when publishing patent drafting disclosures.

First and foremost, the patent application must be filed in the US within one year of the date of publication; if not, the technology will be barred from protection. In addition, complications may arise under the Invention Secrecy Act, 1951. Finally, the inventor may not be able to apply for a patent in foreign countries at all. Most foreign patent systems (unlike that of the US) require absolute novelty, meaning that if the patentable material is disclosed to the public prior to filing,

then a patent on that specific technology is barred.

This requirement makes it particularly important for patent practitioners to be mindful of the method used to transfer the technical disclosure during the outsourcing process. Even if a proper licence is obtained from the BIS, the patent practitioner must ensure that the disclosure does not become a printed publication if the preservation of foreign rights is desired.

## Reducing potential liability

While compliance with the EAR presents unique challenges for exporters of patent drafting material, IP practitioners may still choose to outsource work in order to ensure efficiency and client satisfaction. In such circumstances, the use of a high-quality export house to certify the export of technology can smooth the path, ensure legality and limit potential liability.

An appropriate sequence of steps to achieve the legal export of patent drafting materials is as follows:

- The patent practitioner or the inventor proposes the need to outsource the patent drafting.
- The practitioner advises the inventor of the relevant export rules and the need to hire an export house to obtain clearances.
- The inventor authorizes the practitioner to outsource the patent drafting step.
- The practitioner confidentially transfers the technical disclosure to an export house that has an effective export compliance programme.

This procedure satisfies the inventor's need for the timely and cost-effective filing of the application, while allowing the practitioner to retain the client and secure the rights to do the work needed for later stages of prosecution.

After reviewing the necessary information, the export house will provide one of the following opinions to the practitioner: (1) no export is allowed of the particular technology and/or to the specific destination; (2) a licence from the BIS is necessary for the export; or (3) no licence is necessary and the export can proceed.

The opinion given by the export house is of critical importance. If its report is erroneous, the BIS may take action against the inventor, the practitioner and the export house. Determining which of the three parties are liable for any penalties imposed by the BIS is far from straightforward.

## The blame and the pain

If the BIS takes action against all three parties, the patent practitioner and the export house are likely to be accused of causing, aiding and abetting the violation.

However, the prosecutor would need to show that the practitioner and/or the export house was aware of a legal duty not to export the technology. This is good news for the practitioner because he or she was acting under the impression that no licence was needed (and has the export house report to prove it).

The export house also has a strong case as long as it had a reasonable belief that the certified report was truthful to its knowledge. However, if the practitioner or export house made a false statement to further the illegal export, aider-abettor liability would attach to whoever made the false statement.

It is the inventor, being the primary party responsible for the export of the technology, who is likely to bear the brunt of any action taken by the BIS. Indeed, the EAR state that: "the US principal party in interest is the exporter." Furthermore, "the exporter may hire forwarding or other agents to perform various tasks, but doing so does not necessarily relieve the exporter of compliance responsibilities." Therefore, even after obtaining an export house report, the inventor may be held liable for any penalties imposed for unlawful export.

It may be possible for an inventor who has been penalized by the BIS to recover the penalties from the patent practitioner or the export house.

On the face of it, an inventor without a contract should certainly succeed in an indemnity action against the export house that advised on the illegal export. However, in reality this may not be the case.

The role of an export house is analogous to that of an auditor. Both apply professional judgment to determine if the standards of the relevant governing body are satisfied, then provide a report to their clients.

The export house report is likely to be considered an opinion only, and evaluated by a similar standard as that which applies to an audit.

### The intended-beneficiary approach

The majority of US states have adopted the intended-beneficiary approach, under which a supplier of information (such as an export house or an auditor) "owes no general duty of care regarding the conduct of a [report]

to persons other than the client". A supplier of information may not be liable under a general negligence theory to third parties who are damaged because of reliance on the supplier's report. However, the supplier may be liable under a theory of negligent misrepresentation or fraud to someone other than the client.

In *Bily v Arthur Young & Co*, the California Supreme Court held that a third party will not recover compensation under a pure negligence theory unless there is proved to have been a clear communication or manifestation between it and the supplier of the information; but that it will be able to recover under negligent misrepresentation if the information supplier made false statements, honestly believing them to be true without any reasonable ground for such belief. This finding has given service providers broad immunity for their own professional malpractice.

In view of this, it is difficult for inventors to recover any of the export violation penalties from the export house under a theory of negligence.

The main question is whether or not the export house had actual knowledge of a specific third party relying on the export report (actual knowledge, not what it "should know" or had "reason to know").

Under the EAR, the export house need not know the identity of the person or entity exporting the data – although it may enquire as to this because the BIS publishes a list of people who have been denied the privilege to export. Nevertheless, the responsibility of the export house is to ensure that the technology can be exported to a specific destination, not to ensure that the inventor can export.

As a result, under the intended-beneficiary approach the export house should not be liable for the export violations of the inventor.

In rejecting a negligence claim from a third-party non-client, the California Supreme Court has provided an incentive for parties to utilize their own "prudence, diligence, and contracting power, as well as other informational tools". If this were not the case, professional service providers such as export houses would cease to be simply suppliers of information and instead would become insurers.

### The akin-to-privy approach

Other courts have preferred a more stringent test of service provider liability, the "akin-to-privy approach", which requires a "bond . . . so close as to approach that of privy" to exist between the professional service provider and the third party in order for the former to assume liability. As outlined by the New York Court of Appeals in *Credit Alliance Corp v Arthur Andersen & Co*, the akin-to-privy approach requires not only that the service provider has knowledge of the particular purpose of the report and of a specific third party who will rely on it, but also that there be a "linking" element between the service provider and the third party which specifies that reliance.

In *Ultramares Corp v Touche*, the New York Superior Court applied the akin-to-



**BRIGHT IDEA OR COSTLY MISTAKE?** Companies that jump into patent outsourcing without adhering to US expert rules may incur hefty fines.

privity approach in finding for the defendant (an auditor) in a third-party negligence action because the third parties were not known to the defendant and had only “incidentally benefited” from the report in question.

By contrast, in *Credit Alliance Corp v Arthur Andersen & Co*, the court found the “linking” element was satisfied by known third-party reliance on the report and direct communication between the service provider and the third party.

Under the akin-to-privity approach, an export house is likely to escape liability for the negligent preparation of the export report, given that the EAR does not require the export house to satisfy the intended-beneficiary approach, let alone the more stringent “linking” element. However, although in textbook cases the export house will be in contact only with the attorney and will not know concretely who is relying on the export report, in practice this will not always be the case.

There are various situations by which requirement for a linking element between the export house and the inventor may be satisfied. For example, the export house may need to contact the inventor with a question about the technology. Either the attorney can transmit the question to the inventor, or the export house can contact the inventor directly. The latter case is likely to create liability for the export house under a theory of negligence.

In order to satisfy the akin-to-privity test, the inventor needs to establish a sufficient link, or nexus, with the export house. This test will be difficult for the inventor to meet if no communication is made between the inventor and the export house.

## The foreseeability approach

A few US states have implemented the foreseeability approach to determine the liability of a service provider (typically, an accountant) to a third party. As the name implies, this test is satisfied when the “third party is a member of a limited class whose reliance on the accountant’s representation is specifically foreseen.” This approach is broader than the previous two, both of which have been heavily criticized for providing “anachronistic protection” to service providers with respect to third-party liability.

Courts that have implemented the foreseeability approach point out that service providers are free to obtain third-party liability insurance (although this results in higher costs for clients) and they emphasize the need to deter professional service providers from delivering faulty reports.

In *Haddon View Investment Co v Coopers & Lybrand*, the Ohio Supreme Court applied the foreseeability approach in finding for the plaintiff in a third-party negligence claim against an auditor. The standard to satisfy the foreseeability test is low: the service provider does not have to know of the third party or of the actual reliance. In other words, if ordinary business dealings may permit the passage of the report to a third party, the service provider is likely to be held liable to a third party who relied upon the negligently prepared documents.

The foreseeability test provides the inventor with the prospect of a recovery based on a negligence theory. In particular, the export house reasonably should foresee the possibility that the patent practitioner being dealt with has at least one client that may be relying on the export

report, and even more so if the identity of the inventor is disclosed in some way by the practitioner.

Of the three approaches, the foreseeability approach certainly provides the highest likelihood of liability extending to the export house.

## Simple steps to avoid liability

The outsourcing of patent drafting work can be a daunting and complex process fraught with legal and regulatory hurdles. Yet it can also be beneficial, serving the needs of both inventors and patent practitioners. Careful measures must be taken to avoid potential export violations and there are several precautions the inventor and the export house can take to shield themselves from liability.

The export house should endeavour to know as little as possible – preferably, nothing – about the inventor. If clarification is needed regarding the specific technology, then the export house should go through the patent attorney rather than directly contacting the inventor.

The export house should also include the following statement in the export report: “This report expressing that a licence is not required to export the technology provided on [date] is conditioned on the exporter (US Principal Party) being legally able to export. The Denied Person List has been attached to the report so the exporter can personally check to make sure exportation is allowed by BIS for the specific exporter.”

If a problem arises, this disclaimer should have the effect of communicating to a court that the export house did not know who was exporting the technology. Indeed, if the problem is with the exporter specifically, then the report clearly did not verify the authority of the exporter to export.

Finally, the export house should disclose all concerns about the export in good faith. If these measures are taken, the export house is likely to be shielded from a third-party inventor’s allegations of fraud or negligent misrepresentation, even in the absence of a contract.

From the perspective of the inventor and patent practitioner, the export house should be put on notice that the export report is on behalf of the specific inventor. This may be done by including the following statement at the top of each of the disclosure’s documents: “This disclosure and its contents belong solely to [inventor(s)]. The work performed, with respect to this disclosure, is for the express benefit of [inventor(s)]. If a question regarding the technology is needed, please contact [inventor(s)].”

Additionally, the patent practitioner can require, as part of the deal, that the export house send the export report to the inventor as well as to the practitioner. Doing so will mean that regardless of which liability test the court adopts, the inventor should have a course of action for negligence against the export house in the case of mistakes being made.

These steps will increase the likelihood of an inventor recovering any penalties incurred as a result of export violations. ■

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*Peter Ludwig is a former patent examiner at the US Patent and Trademark Office. He is currently a third-year law student at Franklin Pierce Law Center in Concord, New Hampshire, where he focuses on patent law and international law. He can be contacted at ludwigpl@gmail.com.*



# Raising the alarm

**India's lack of protection  
for whistleblowers leaves it  
vulnerable to large-scale  
corporate fraud**

*Ben Frumin reports*

**S**tart a discussion about whistle blowing in India and it won't be long before Satyendra Dubey's name comes up.

Dubey was a government engineer working for the National Highways Authority of India (NHA). In 2002 he blew the whistle on widespread irregularities and corruption that NHA officials and contractors were engaged in on the flagship Golden Quadrilateral roads project. Dubey disclosed the corruption in a November 2002 letter to the prime minister's office. He asked that his identity be kept secret.

"Not only did the government do nothing concrete to stop corruption," says Bhmesh Verma, a partner at Khaitan & Co, "but Dubey's request for anonymity was ignored and his identity was revealed to all concerned."

"This was like issuing a public contract for his life," say Sukhpreet Singh and Anindita Roy Chowdhury, associates at Delhi-based law firm LexCounsel. "A year later, on 27 November 2003, Satyendra was murdered by the contractor mafia in Gaya, the town where he lived and worked for NHA."

"No other incident has brought the demand for whistleblower legislation into such a sharp focus," says Verma.

Dubey is not the only employee of an Indian company to have paid a terrible price for taking a stand against corruption. Shanmugam Manjunath, a marketing manager at Indian Oil Corporation, was murdered in 2005 after preventing a corrupt petrol station manager from selling adulterated fuel.

Both cases received prominent media attention. Dubey's death also provided the impetus for a draft law in parliament intended to protect whistleblowers. Unfortunately, the bill has been stalled there for years – a sad illustration of the Indian government's apparent lack of will to introduce strict and enforceable whistle blowing protections (see *Whistle blowing around the world*, page 47).

In recent months the debate has been reignited by the startling disclosures of financial fraud at Satyam, one of India's largest outsourcing companies. "The magnitude of the fraud ought to have been detected," say Singh and Roy Chowdhury. "A more proactive whistleblower protection policy, which would form a part of the internal best practices of the company, may have encouraged personnel to alert the authorities and regulators in advance."

"In the case of Satyam, there was no company policy on

## Several prominent companies in India have already adopted a whistleblower policy

Debjani Aich-Ramnath  
Senior Associate  
Kochhar & Co



## The stark reality is Satyendra Dubey's murder!

Ketan Kothari  
Senior Consultant  
Thakker & Thakker



whistle blowing," explain Arti Narsana, a senior associate, and Ann Jose, an associate, at Vaish Associates. "The situation could have probably been avoided had such a policy been in place."

Nobody knows whether the severity of this scandal would have been reduced by better whistleblower protections, which may have encouraged earlier disclosure by a Satyam insider. What is not disputed is that India's whistle blowing mechanisms are feeble, when they exist at all. How the case of Satyam will change this critical aspect of corporate governance remains to be seen.

### Turning a blind eye

Ketan Kothari, a senior consultant with Thakker & Thakker in Mumbai, believes that employees' typical reactions to discovering unethical or illegal behaviour within their companies fall into three general categories. "It's one thing to really blow the whistle," he says. "The second thing is to not participate in something that's wrong and to leave it alone. And the third is to participate."

According to Kothari, most people in India fall into the second category, while only a few will risk pursuing the first or the third options.

Actual whistle blowing is so uncommon that the term itself is "a relatively recent entry into the public lexicon," says Arihant Jain, an associate with OP Khaitan & Co in New Delhi.

Due to the toothlessness of Indian law on the subject (see *Legal failings*, page 48), the protection of whistleblowers' rights and safety depends almost entirely on the benevolence of their employers. Essentially, companies can choose whether to support or suppress whistle blowing.

Some Indian companies already encourage their employees to raise the alarm if they spot any irregularities. "In light of the massive exposés seen in the corporate sector in the US and in Europe, several prominent companies in India have already adopted a whistleblower policy as part of their good corporate governance practice," says Debjani Aich-Ramnath, a senior associate with Kochhar & Co.

"These policies would typically ensure that a whistleblower is provided with adequate protection against unfair practices such as retaliation, threats of termination, suspension of service, disciplinary action, and demotion."

While technically such policies may be in place at many corporations, some observers question the commitment

of Indian companies to encourage and protect whistleblowers. “Many companies have adopted whistle blowing mechanisms,” say Narsana and Jose, “but they are not implemented wholeheartedly.”

“On paper, yes, these things are there,” says Kothari. “But the stark reality is Satyendra Dubey’s murder!”

### Accepted but not acceptable

Not all types of whistle blowing are frowned upon in India. Jane Niven, the regional general counsel at Jones Lang LaSalle, notes that when blowing the whistle could lead to personal advancement, it’s often blown loud and fast.

“Where an employee is at a disadvantage because of the actions of their superior, then they are very happy to blow the whistle,” she says. “Likewise when a vendor misses out on a contract they are very quick to point the finger at the successful vendor and procurement team and accuse them of corruption.”

“In some instances,” Niven continues, “the accusations

are true, but it is not a dislike of corruption that motivates the actions – rather a sense that they have been hard done by. This seems to be an aspect of doing business in India which is accepted, though not really acceptable.”

With no government-mandated protections for whistleblowers, and few companies genuinely encouraging their staff to report corporate misdeeds, there is often little incentive for employees to raise the alarm. The risks of doing so considerably outweigh the potential rewards.

Kothari speculates on the likely fate of a whistleblower at the hands of a company’s management: “They’ll reduce him to nothing. He could just be relegated to inconsequential jobs.”

Even worse, someone who reports a wrongdoing may simply be fired. Such individuals may struggle to find new employment after being branded a whistleblower.

Aliff Fazalbhoy, a partner at ALMT Legal, and Namrata Shroff, an associate at the firm, note that if whistleblowers do lose their jobs, they could potentially turn to the Industrial Disputes Act, 1947, India’s principal labour legislation. The act provides “legal protection against employees who are

## Whistle blowing around the world

### Indian employees who raise the alarm over corporate misdeeds lack the protection afforded to their counterparts in the US and Europe

India’s whistle blowing mechanisms are “still at a nascent stage” compared to the West, says Arihant Jain at OP Khaitan & Co. “There are also many who believe Western models of laws to protect the whistleblower can’t be copied because the Indian situation is unique and beset with challenges,” he adds.

“Other countries doing business in India believe there is an urgent need to protect whistleblowers,” says ML Bhakta, the managing partner of Kanga & Co in Mumbai.

India modelled its languishing 2006 whistleblower protection bill (which has yet to be passed into law) on the UK’s 1998 Public Interest Disclosure Act. The UK act allows employees to make “protected disclosures” if they have reasonable grounds to suspect the law has been broken, or that there has been a breach of environmental, health and/or safety regulations.

In the US, the Sarbanes-Oxley Act was adopted after the Enron and WorldCom debacles. It requires that publicly traded companies adopt procedures for employees to file internal complaints and maintain confidentiality, and criminalizes retaliation against whistleblowers. “Anyone retaliating against a corporate whistleblower can now be imprisoned for up to 10 years,” explain Sukhpreet Singh and Anindita Roy Chowdhury of LexCounsel.

Ramya Mohan of Economic Laws Practice laments that “such an exhaustive piece of legislation is absent in India.”

The US is “generally considered a pioneer in enacting whistle blowing legislation,” having done so in relation to the public sector as early as 1989, says Douglas Tween at Baker & McKenzie in New York.

“Whistleblowers are generally perceived by the public as heroic figures taking a stand against corrupt authority and bringing corporate or government misdeeds into the light,” adds Tween. Not so in India, where whistleblowers “tend to be perceived as acting more in their own selfish interest and less for the collective good.”

In France there are legal protections for civil servants who blow the whistle, but not for employees in the private sector, says Jain. He adds that in Germany civil servants may blow the whistle on serious crimes directly to a prosecutor rather than their immediate supervisor, though no such mechanism exists in the private sector.

Across much of Europe there is a widespread feeling that whistle blowing is akin to ratting out friends and colleagues to the secret police, says one American lawyer, adding that strong unions have reinforced that cultural point.

“If we’re not quite there yet in Europe, we’re certainly not there in India,” says Suzanne Rab at Hogan & Hartson.

Still, India is not exactly lagging behind other Asian countries when it comes to whistle blowing. “The Indian scenario is not very different from that seen in other developing nations, or in Asian economies in general,” says Anuj Puri at Jones Lang LaSalle Meghraj. “In these countries, large corporates are often seen as entities whose activities and objectives are at odds with those of the common man. Unless the fraud is extremely large and apparent, the informer is invariably seen as a traitor and is treated accordingly, even if the facts of the case reveal that he or she acted for the greater good.”

## Formal channels are part of the problem rather than a solution

Bhumesh Verma

Partner

Khaitan & Co



discharged from duty unfairly and/or illegally". A whistleblower who is unfairly ruined for reporting wrongdoing might also be able to make a defamation claim, they say, noting that "truth is a good defence to defamation".

Still, Singh and Roy Chowdhury describe the potential consequences suffered by a whistleblower as "grave and irregular", saying they might include ostracism, petty

harassment, being the subject of vicious rumours, blacklisting, formal reprimands, suspensions or transfers. "Instead of evaluating the information provided by the whistleblower, the full power of the organization is turned against him."

## Battling cultural stigma

Many observers believe that stigmas against whistle blowing are deeply ingrained in Indian culture. "Many Indian businesses, even some of the large ones, are run by families and loyalty in all circumstances is expected," says Anuj Puri, chairman and country head at Jones Lang LaSalle Meghraj.

In a culture where loyalty is highly valued, exposing co-workers and superiors, even for the sake of public good, is often viewed as betrayal.

Suzanne Rab, counsel at Hogan & Hartson in London, says "there are challenges even in accepting that the behaviour itself is unlawful".

"Will people actually tell their employer that this activity is going on?" she asks. "Talking to Indian businesses, I even get pushback on the primary question as to whether the whole [whistleblower] culture is an activity that should be sanctioned by law."

There are even suggestions that the Satyam debacle may have made the situation worse. Jain at OP Khaitan &

## Legal failings

### Ineffectual laws make whistle blowing in India a dangerous occupation

India's laws regarding whistle blowing are ineffectual, narrow in scope, easily eluded or not properly enforced because they merely make recommendations instead of laying down mandatory requirements. Here are a few examples:

**Clause 49:** This clause (in the listing agreement that is required between a company and a stock exchange at the time of listing) states only that a company may have a whistle blowing policy. It is recommended, but not required. As Singhania & Partners managing partner Ravi Singhania explains, this "attempt to mandate whistleblower protection has been disregarded by the corporate sector with the argument that it would only empower disgruntled employees to harass the management." SEBI listened to those reservations, and made the requirement non-mandatory.

**Whistle Blowers (Protection in Public Interest Disclosures) Bill:** This bill was introduced in India's parliament in March 2006 – more than three years ago. The bill purportedly "provides for protection from criminal or civil liability, departmental inquiry, demotion, harassment and discrimination of whistleblowers", says Arihant Jain at OP Khaitan & Co. The bill is still pending in parliament. Even if it does make it through, many lawyers are sceptical. Arti Narsana and Ann Jose of Vaish Associates call the bill "a rudimentary form" of the UK Public Interest

Disclosure Act. "The bill is very sketchy and does not set up a definite mechanism for protection of whistleblowers," says ML Bhakta, managing partner of Kanga & Co.

**Central Vigilance Commission (CVC):** Ramya Mohan, a partner at Economic Laws Practice, says that after Satyendra Dubey's murder, the government passed a resolution authorizing the CVC to receive written complaints on allegations of corruption or the misuse of office, and to recommend appropriate action in response. However, Mohan says, this order only covers employees of the central government, or of companies and authorities owned or controlled by the government: "It does not cover employees of private sector organizations," he says.

"The practicality is that the CVC has done little and the common man lacks any faith in any enforcement by it," adds Pooja Yadava of PSA Legal Counsellors in New Delhi.

**Reserve Bank of India (RBI) rules:** In 2007 the RBI adopted a resolution similar to that governing the CVC, this time applying to private and foreign banks. "However," says Mohan, "the role of the RBI in this regard is again recommendatory [only]." As Debjani Aich-Ramnath of Kochhar & Co notes, "Unfortunately, there is no similar specific legal protection available to whistleblower employees in the corporate sector in India."

Co believes that “increased media coverage and regulatory attention invited by scrutiny of recent corporate scandals” has added to the cultural stigma against reporting fraud, and increased employees’ reluctance to raise the alarm.

Furthermore, many perceive the meagre channels that do exist for reporting misdeeds as part of the same corrupt, favour-swapping system that discourages whistle blowing in the first place. Singh and Roy Chowdhury note that appeal bodies have many links with companies, including corrupt companies, which often seek the protection of these powerful bodies.

“Formal channels are part of the problem rather than a solution,” says Verma. “Ideally, a government department and certain enterprises should voluntarily establish an internal procedure for whistleblowers as a matter of best practice, providing a speedy remedy within the organization.”

Kothari believes that cultural change must come from above. “If it’s corrupted from the top, who do you really blow your whistle to?” he asks.

Douglas Tween, a partner with Baker & McKenzie in New York, agrees: “It is essential that the senior management of an organization send the message to employees that the organization is committed to doing business in a legal and ethical manner, and that deviations will not be tolerated.”

Tween elaborates on how such a systemic transformation might be achieved: “The building of such a culture within an organization could be encouraged by enforcing a policy and formal mechanism – including hotlines or mailboxes – for reporting illegal or unethical practices,” he says. There should also be “clear communications about the process of voicing concerns, such as a specific chain of command, and a ban on retaliation.

“It may also be possible, under certain circumstances, to allow for informants to share a portion of any damages or disgorgements resulting from disclosure.

### Self regulation

In the absence of strong government support, many lawyers believe that companies should encourage and adopt best practices on their own.

“Corporate India has been waking up to the fact of



**DANGEROUS OCCUPATION:** Whistleblowers enjoy little, if any, protection in India.

### The introduction of a US or UK-style whistle blowing law would be a first step

Jane Niven

Regional General Counsel

Jones Lang LaSalle



financial irregularities for a while now,” says Puri, adding that many corporations are putting systems in place to “encourage positive flow of information on negative trends.

“However, this country is still emerging into higher transparency levels, and it may take a while before the ethical parameters being pioneered by such companies are adopted across the board,” he says.

Rab suggests that India should adopt a European-style mechanism, in which a whistle blowing hotline is managed by a third-party intermediary. However, she says this could only work if a clear, independent procedure that includes no punishment and guarantees anonymity for the whistleblower is put in place.

“The introduction of a US or UK-style whistle blowing law would be a first step. However, as with most things in India, the law would only be as good as its enforcement,” says Niven. “In other words, any act introduced to protect whistleblowers would have to be backed up by robust regulations, including bringing action against any employer who sacks, demotes or harasses an employee who blows the whistle in good faith.”

Several lawyers say India desperately needs nationwide legislation that applies to both the public and private sectors, and that “identifies the role of a bona fide whistleblower, promotes the establishment of internal mechanisms by which relevant issues of concern might be reported and addressed, defines the conditions of disclosure protection, maintains confidentiality and provides due security to the whistleblowers,” as Verma outlines it.

Even the enacting of such legislation – the likelihood of which, according to Verma, “may seem remote” – would not be enough. There also needs to be swift and fair adjudication of whistle blowing cases.

Any remedy process for whistleblowers who feel targeted and threatened “must be fair and quick,” Kothari warns. “Delayed justice is injustice.”

### The Satyam effect

It is questionable whether the damaging publicity surrounding the Satyam fraud will do much to change the attitude of either corporate India or the Securities and Exchange Board of India (SEBI) regarding whistle blowing. What is clear is that the Satyam scandal has hurt India badly.

## Post Satyam, SEBI has realized that corporate India needs to be more transparent

Ramya Mohan  
Senior Associate  
Economic Laws Practice



“The viability of business process outsourcing rests on the ability of foreign companies to entrust Indian firms with confidential data and the Satyam scandal undermines this trust,” warns Tween.

Noting that employees of Satyam “may have been aware of the magnitude of the fraud,” Aich-Ramnath at Kochhar & Co speculates that many listed companies may “soon implement corporate governance practices”.

Ramya Mohan, a senior associate with Mumbai-based Economic Laws Practice, says that “post Satyam, we can expect the employees of various corporate bodies to show more awareness towards the workings of their organizations, which may encourage them to become whistleblowers.”

“Support for such legislation is building,” says Tween. “Several highly publicized events of the last few years – most recently the scandal at Satyam, but including the murders of Satyendra Dubey and Manjunath Shanmugam – have led to increased public desire for the enactment of whistleblower protections.”

Others are less confident that change is forthcoming. Pooja Yadava, an associate at PSA Legal Counsellors in New Delhi, says that even after Satyam, whistle blowing “has not received adequate attention”. She even questions whether adequate legal provisions would have helped in the Satyam case, citing “the absence of any definite enforcement”.

Niven believes that corporate India’s increased exposure to international business is having a positive impact: “I have come across whistle blowing policies at DLF and Tata and although these are listed companies and therefore subject to external rules ... I understand that their training on these issues is well focused,” she says.

There are also signs of changing attitudes at SEBI. The regulator is reportedly considering the introduction of more rigorous audit and disclosure procedures for large public companies. “Post-Satyam, SEBI has realized that corporate India needs to be more transparent and corporate governance needs to be more regulated,” says Mohan.

“Given the impact of the Satyam scandal on India’s global reputation,” says Aich-Ramnath, there is a strong possibility that better auditing and peer reviews at large companies “may be made mandatory in the future.”

Whatever the outcome, pressure is building for the government and corporations to take action. “There is no excuse for delaying the promulgation of a whistleblowers act in India, and mandatory requirements of whistleblower policies for all listed companies,” says Rahul Mahajan, special India counsel at Kelley Drye & Warren. ■

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## New roadmap for foreign banks in India?

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Recent turmoil in the global financial market may force the Reserve Bank of India (RBI) to rethink its roadmap for foreign banks, announced on 28 February 2005. The roadmap proposed a two-pronged approach to place foreign banks on par with Indian banks.

The first approach was to encourage the consolidation of public and private banks in India; the second envisaged a gradual, phased increase in the presence of foreign banks, meeting India's commitments to the World Trade Organization (WTO). The roadmap also stated that policy decisions regarding foreign investment in the banking sector which had been set out by the Ministry of Commerce and Industry in its press note dated 5 March 2004 would also be applied gradually.

The implementation of the roadmap was divided into two phases. In the first phase (March 2005 to March 2009), foreign banks wishing to enter India could do so either through a wholly owned subsidiary (WOS) in India, or by establishing a bank branch there. The RBI also permitted foreign banks already established in India to convert their branches there into subsidiaries.

Although this was initially seen by the market as a positive step, there was a catch: the RBI further stipulated that during the first phase of roadmap implementation, Indian WOSs of foreign banks would be treated as if they were branches of such banks (i.e., not as if they were Indian banks), with the branch licensing regime being applied accordingly.

The RBI reiterated that it would grant branch expansion licences to foreign banks beyond the levels required to meet its commitments to the WTO, with the caveat that priority would be accorded to new branches located in underserved (rural) areas. In fact, between 2005 and 2009 the RBI granted a few foreign banks additional bank licences for small towns.

Acquisition of controlling stakes in private banks was to be left for the second phase of roadmap implementation (from April 2009). However, the RBI stated that it might approve earlier stake acquisitions of selected private banks for restructuring purposes (in other words, only struggling private banks, as determined by the RBI, could be acquired). In reality, while there have been takeovers of struggling banks in the period 2005-2009, the RBI has not preferred foreign banks as acquirers.

The RBI stated that in the second phase of roadmap implementation, adequately performing WOSs would be accorded the status of Indian banks, and on completion of a minimum period of operation would be required to divest a 26% stake in favour of resident Indians, as per the foreign direct investment (FDI) norms. Furthermore, based on the performance of those foreign banks that had acquired stakes in private banks, the RBI may decide to allow mergers with any private bank rather than only those identified by the RBI for restructuring purposes, subject to FDI norms and other regulations.

The global economic meltdown and the consequent collapse of several major financial institutions raises serious questions about foreign banks' increased access to the Indian financial sector. Originally, the perceived benefits of banking sector liberalization included adoption of robust and superior risk management techniques and better customer service, both brought in from overseas. With large question marks now hanging over these factors, what are the RBI's current thoughts about foreign banks setting up shop in India?

A key indicator of things to come may be the report of the Committee on Financial Sector Assessment (CFSA); while not binding, its implications for foreign banks may be far-reaching. The CFSA report observed that private banks

in India have independently adopted risk management technologies and issued products that are on a par with those of its global counterparts, and that therefore the question of liberalization should be revisited, since the perceived unique benefits of allowing foreign banks into India have proven to be mythical.

The CFSA report also states that reciprocity is a key principle when allowing foreign banks access to the Indian market. The RBI has indeed applied this principle: it obtained better treatment for the State Bank of India by Singapore authorities due to its own influence on the Development Bank of Singapore's applications for multiple branches in India.

Given the current global economic situation and the almost universal perception that the recklessness of global financial players is to blame, the RBI may well postpone (if not completely abandon) the second phase of roadmap implementation and instead adopt a "wait and see" policy.

The bitter experience of Eastern Europe, where almost 75% of the banking assets are in the hands of foreign banks, may also counsel caution: when financial crisis struck, those banks either failed to commit more badly needed funds or even tried to withdraw, while governments there could only stand by and watch.

The phrase "national champions" may well now acquire a whole new meaning; and foreign banks already in India may face less competition in expanding their business from now on.

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## Give teeth to the audit committees

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The audit committee is the immune system of a corporation. It forms a key element in the corporate governance process, in the context of the financial disclosures to be made by a company. In addition to the mandatory appointment of an external auditor to verify accounts, listed companies and certain unlisted companies must establish audit committees.

The statutory basis for formation of audit committees lies in clause 49 of the listing agreement and in the Companies Act, 1956. The primary objective of these regulations is to assure the shareholders that the auditors who act on their behalf will safeguard their interests. Essentially, the goal of an audit committee is to prevent fraud. This requires it to implement and monitor an effective ethics and compliance programme.

Clause 49 requires all listed companies to form audit committees, which must meet at least four times a year. The eligibility criteria require all committee members to be financially literate, with at least one having financial and accounting management expertise. ("Financial literacy" has been defined as the ability to read and understand basic financial statements, along with experience in finance or professional certification in accounting.) Two-thirds of the committee must be independent and it must have three directors, among them an independent chairman.

Under section 292A of the act, unlisted public companies (but not private limited companies) with a paid-up capital in excess of Rs50 million (US\$1 million) must have audit committees, the composition of which is the same as provided under clause 49. The company board defines the committee's scope. The committee is charged to make binding recommendations on the operations and

financial management of the company's affairs.

The importance of an audit committee's responsibilities cannot be overemphasized. The fundamental task of the committee is to stringently monitor the company's financial reporting process, endeavouring to ensure that the disclosures are correct. In an increasingly interconnected world where scams are seemingly becoming commonplace, the scope and depth of the committee's work cannot be underestimated; it requires careful vigilance in a range of areas, including the work done by the auditors.

The principal focus of the committee members should be on getting to the bottom of issues which could potentially give rise to fraud. If tell-tale signs of irregularities are ignored, the company may end up in prolonged legal battles and be liable to sanctions that can cripple its business and severely damage its reputation.

Clause 49 empowers the audit committee to achieve its difficult objectives in three ways: (a) it can investigate any activity within the terms of reference prescribed by the board of the company; (b) it can seek information from any employee; and (c) it can obtain external professional advice. The committee is also obliged to review the financial statements of any unlisted subsidiary, especially its investments.

Further, under section 292(8) of the act, the recommendations of the audit committee on any matter relating to financial management (including the audit report) are binding on the company's board. If a board does not accept the recommendations of the committee, it must record its reasons and communicate these to the shareholders. As the act does not specify the mode of communication to be used,

this directive is liable to be evaded.

Presently, failure to comply with any of the provisions of section 292 of the act makes both the company itself and every officer in default liable to punishment; this can include a monetary fine of Rs50,000 and imprisonment for up to a year. In our view, the regulators need to enforce this provision effectively.

The existing provisions under clause 49 and the act are not strong enough to prevent fraud, as the case of Satyam makes clear. Clause 49 does not provide any measures to keep audit committees free from company influence. Under the act, audit committees have little effective power in cases where the company board does not adhere to its recommendations.

To be effective, audit committees need to be truly independent. Legislators must empower them, enabling committee members to consistently challenge management and the auditors, and ensure that adequate and appropriate controls are maintained so that potential fraud within the company can be identified. Where unexplained anomalies are found, the committee must investigate. It is in the best interest of all – including stakeholders, employees and external advisers – for the audit committee to play an active role in preventing and punishing fraud.

In recent months – especially after Satyam – the Securities and Exchange Board of India has been considering revamping clause 49 of the listing agreement to strengthen disclosure norms. However, as with everything, no legislation is or ever will be effective if there is a lack of strong and determined enforcement.

*Priti Suri is the proprietor of PSA.*

## Applicability of fringe benefit tax to liaison offices in India



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In an application filed with the Authority for Advance Rulings (AAR) by Singapore Tourism Board (STB), it was held that STB is liable to pay tax on fringe benefits extended to its employees in India. The ruling was made with reference to sub-section (2) of section 115WA, and sub-section (2) of section 115WB of the Income Tax Act, 1961 (ITA).

STB is a company incorporated in Singapore. The company had employees working in liaison offices in New Delhi, Mumbai and Chennai, and the expenses relating to the Indian offices were being reimbursed from the Singapore office of the company.

In its application to the AAR, STD sought an advance ruling on the issue of whether fringe benefit tax (FBT) was applicable to the expenses of its liaison offices in India. STB stated that these offices did not carry on any business activities, and that no income accrues to it in India.

### Obligations set out

A self-contained code on FBT was added to the act (through the Finance Act, 2005) and took effect from 1 April 2006. Section 115WA (1) states: "In addition to the income-tax charged under this act, there shall be charged for every assessment year commencing on or after the 1st day of April, 2006, additional income-tax (in this act referred to as fringe benefit tax) in respect of the fringe benefits provided or deemed to have been provided by an employer to his employees during the previous year at the rate of thirty per cent on the value of such fringe benefits. (2) Notwithstanding that no income-tax is payable by an employer on his total income computed in accordance

with the provisions of this act, the tax on fringe benefits shall be payable by such employer."

This extract makes it clear that FBT is payable in addition to income tax charged under the ITA. FBT is to be charged at 30%, and is payable by the employer who provides or is deemed to have provided fringe benefits to his or her employees. Sub-section (2) states that even if no income tax is payable by the employer, the employer is still liable to pay FBT.

### Defining "fringe benefits"

In the terms outlined in section 115WB (1), the term "fringe benefit" means any consideration for employment provided by way of (a) any privilege, service, facility or amenity, direct or indirect, provided by an employer, whether by way of reimbursement or otherwise, to his or her current or former employees; (b) any free or concessional ticket provided by the employer for private journeys of his or her employees or their family members; (c) any contribution by the employer to an approved superannuation fund for employees; and (d) any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his or her current or former employees.

In the terms outlined in Section 115 WB (2), certain expenditure incurred by the employer (whether for the purpose of deriving gain or otherwise) would be deemed as provision of fringe benefits to the employees.

Such expenditure includes the provision of items such as entertainment, hospitality, conference expenses, sales promotion, employees' welfare,

local transport, festival celebrations, gifts, tours and travel.

### Precedent cited

In addressing the application, the AAR drew attention to its 2006 ruling in the case of Population Council Inc USA, wherein it had been held that even if a company is not earning any income in India, it would still be liable to pay FBT for certain expenses there.

The AAR held that FBT is in addition to income tax, and that even when no income tax is payable by an employer on his total income computed in accordance with the provisions of the ITA, FBT is still payable by the employer.

The AAR found that liability to income tax is not a prerequisite for liability to FBT. The AAR further stated that rather than being a tax on income, FBT is a levy on certain types of expenditure of an employer, which may indirectly benefit the employee.

In view of its decision in the Population Council case, the AAR held that a foreign entity not earning any income in India but having employees in India is liable to FBT if it pays fringe benefits to its employees. In the present case, STB had incurred expenses relating to staff welfare, foreign travel, entertainment, establishment of offices, festivals, events and promotional activities, and this expenditure attracted FBT.

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## Proposed amendments to the Land Acquisition Act

By  
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The Land Acquisition Act, 1894, governs the acquisition of private land for any purpose by government or private entities. Practical experience shows that the process of land acquisition is beset with uncertain timelines, administrative holdups, undue delay in awarding compensation and lack of fair land valuations.

These issues are a major concern for project developers; to address them, the Land Acquisition (Amendment) Bill, 2009, was laid before the Lok Sabha (lower house of parliament), where it was passed. However, it remains pending with the Rajya Sabha (upper house of parliament) and is therefore not yet on the statute books.

### Acquisition for public purposes

Once the bill is passed the government will be authorized to acquire land only for "public purposes", defined to include setting up any project useful to the general public for which a project developer has already purchased 70% of the land required. The definition of public purpose also covers infrastructure projects such as those relating to electricity, roads, highways, bridges, airports, railways and mining.

The bill mandates a social impact assessment study if the acquisition process involves large-scale displacement of families. If the land belongs to tribal or other constitutionally protected communities, special provisions must be made for them; specifically, they must be properly resettled. Also, an independent committee is to be set up by the central government to scrutinize proposals submitted for land acquisition. The committee must ensure that waste, degraded and barren land be given primary consideration as the potential location of infrastructure projects, ahead of productive agricultural land.

The bill proposes compensation to be paid to "interested persons" – both those whose land has been acquired and those whose land, though not itself acquired, has otherwise been affected by activities directly related to the acquisition. The definition of interested persons also includes members of traditional communities which enjoy easement rights in the land that is intended to be acquired. If the acquisition is for a company, the bill mandates that 20% to 50% of the compensation amount must be offered through shares or debentures issued by that company. The interested persons may choose either to accept these shares or debentures, or to settle for cash compensation.

If acquired land is re-sold, the acquirer company must give a share of up to 80% of the capital gains to the original owner, or to his or her heirs.

Further, the bill envisages a Land Acquisition Compensation Disputes Settlement Authority to be established at the state and central levels, its task being to settle compensation disputes and so reduce the need for court intervention in relation to acquisition disputes.

### Will it work?

The virtues of the bill are self-evident. It is a commendable effort by the legislature to make the acquisition process a time-limited one, reducing the already-long typical gestation period of infrastructure projects. For instance, under the bill the compensation amount for the acquired land is to be paid within 90 days of the award. The bill also states that if the acquired land is not utilized within a period of five years, its ownership will revert to the government. The scrutiny by an autonomous body of the purpose for which land is required will help ensure transparency, and reduce

litigation on the issue of land acquisition. Further, encouraging the use of waste and barren land for projects will enhance the efficient utilization of land resources, and reduce the administrative difficulties typically faced by project developers in seeking conversion orders and consent from multiple agencies when applying to acquire agricultural and forest land.

However, the bill has attracted some serious criticism. For example, the broad definition of "interested persons" may encumber the process, due to the likelihood of an increased number of oppositions and associated representations. Project developers may have to pay a higher amount of compensation than at present, which may affect project economics.

Though the offering of shares or debentures of the company acquiring land will lend greater sanctity and substance to the idea of community participation in projects, its practical implementation and effects remain to be seen. It may affect the capital structure of the company, and create ambiguity around the nature of the rights and benefits these instruments will offer. It is desirable that the project developer be given the option to pay compensation either in cash or by way of shares or debentures. Further, the bill's provisions relating to re-sale of acquired land – which require the acquirer to track and contact the original owners and their heirs in perpetuity – should be changed, as they are onerous and unrealistic.

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## Overview shows trend to extend broadcasters' rights

By Abhai Pandey,  
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**B**roadcasting of a copyrighted work in audio or visual form requires a licence from the copyright owner, who has the exclusive right to communicate or transmit the work. The broadcast rights so acquired do not affect the original copyright vested in the author of the work, which remains a separately protected right. Also, unlike copyright, the broadcaster's right is not based upon a creative contribution to a work, but upon the economic investment made by the broadcaster in procuring the rights to broadcast.

While the Rome Convention of 1961 fixes certain minimum rights for broadcasting organizations, the Berne Convention of 1979 allows the copyright owners to authorize the broadcasting of their works or their communication in any other form, regardless of broadcast rights that have already been granted. Article 2bis of the Berne Convention leaves it to local legislation to frame conditions for copyright to be vested in broadcasting organizations. Article 14(3) of the Trade-related Aspects of Intellectual Property Rights (TRIPS) agreement also confers certain rights upon broadcasters, which are comparable to those specified in the Rome Convention.

The rights of broadcasters as discussed in section 37 of the Indian Copyright Act, 1957, subsists for 25 years, restricting rebroadcast of the contents; reproduction of contents and creation of visual or sound recordings of the broadcast; and the collecting of fees for viewing such broadcast, rebroadcast or recorded contents, and for selling or hiring of any sound recording or visual recording made without licence or outside the terms of licence by the broadcaster.

The broadcaster has the right to control the extent and the manner of such broadcast. Notably, the right to

broadcast can also be obtained over works that are in public domain. At the same time, fair use exceptions – such as making a sound or visual recording for private use, for training or research purposes and for the reporting of current events – apply to broadcasting rights in the same way they apply to copyright.

In *Entertainment Network (India) Ltd v M/s Super Cassette Industries Ltd*, while discussing compulsory licensing of musical works, the Supreme Court held that broadcast of songs without obtaining a licence from the owner amounted to infringement. The court recognized that FM radio broadcasting is a relatively new phenomenon in India and thus the conflict between the various rights subsisting in a work have to be resolved, keeping in mind the spirit of the act.

In *Garware Plastics and Polysters Ltd v Telelink*, the plaintiffs, who were owners of copyright in a film, had assigned the broadcasting rights for it to the Government of India and state broadcaster Doordarshan, while retaining the right to broadcast the film on cable television. Accordingly, the telecast of the film by cable operators without such licence was held to be an infringement.

The growth in various modes of communication, connected with developments in information technology, has seen broadcasting rights gain new prominence. Recently the courts defended broadcasters' rights in relation to television transmissions, as evidenced in *Prasar Bharti v Sahara TV Network*, where the court restrained news channels from broadcasting substantial portions of cricket series between India and South Africa, the licence to which had been procured by Doordarshan. In *Sony v Zee Telefilms*, the issue related to the fair use and newsworthiness of the highlights of the Filmfare Awards show; the court ordered that not more than eight minutes in a day could be broadcast for

the purpose of news reporting.

The scope of copyright and related rights has expanded in relation to digital and online media too, with copyright law being applied to file sharing, uploading, downloading and webcasts. There have been demands to upgrade the present level of protection of broadcasters' rights, making it more rigorous and secure.

Among the current international efforts to secure effective protection of broadcasters' rights is the World Intellectual Property Organization (WIPO) Standing Committee on Copyright and Related Rights treaty, which addresses issues such as rebroadcasting via cable television, satellite and the internet. Its proposed terms are currently being examined and discussed, prior to the ambit of broadcasting rights being determined and fixed.

The WIPO treaty not only proposes to give broadcasters intellectual property rights in the material they broadcast (like the copyrights held by the creators of the works), it even advocates that copyright holders be prevented from accessing and using broadcasts made of their own works, in order to protect broadcasters' rights. Further, the treaty does not require countries to balance the rights of broadcasters with the rights of users in the same way that copyright laws do (such as via the fair use doctrine).

It is not surprising that opponents of the treaty are rejecting the monopoly rights that it would create in favour of broadcasters, and advocating instead a balance of rights, and the preservation of fair use provisions for the sake of freedom of expression.

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## Innovation in outsourcing should be a joint effort



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Innovation has assumed high priority in the agendas of leading businesses. In the past, innovation was often viewed as a necessary evil but today it is integral to growth and sustainability.

Outsourcing of IP and legal services has become a common phenomenon across the globe, owing to the extensively analysed and well-publicized benefits that it promises.

Foreseeing the various implementation challenges associated with outsourcing, clients often begin by outsourcing only low-risk and low-complexity functions. When this is successful, the validation of the outsourcing model paves the way for outsourcing of higher-complexity and higher-value functions.

What remains to be seen is whether consistent quality standards and dependable vendor service can be maintained; if they can, clients may be encouraged to create dedicated (or "captive") legal process outsourcing supply centres in offshore locations, to which they send a steady flow of work. Corporations like GE have demonstrated considerable success in using such an outsourcing model.

In times of economic slowdown, there has been a declining interest among clients towards outsourcing. However, innovation remains popular and powerful even in the worst of economic conditions; businesses invest heavily in R&D activities to create new ideas for service offerings or products that can retain and attract income in difficult times.

In the prevailing economic situation a great need for innovation is being felt, especially in the IP and legal outsourcing domain. Outsourcing vendors have evolved their service offerings, and are now proposing new technologies and innovative service approaches to their clients. Interestingly, some of the highest-stake outsourcing deals involve clients who explicitly demand

innovation as a significant part of the provider's service.

In order to ensure that innovation is fostered and exploited effectively, it is important for vendors and clients to work together: firstly, to identify the needs and goals towards which creative innovation is to be focused; and secondly, to develop the right working environment in which to enable it.

A successful approach therefore may be that of joint innovation, in which a range of strategies and tools can be used to discover and implement new ways of outsourcing. In such an approach, the focus shifts away from simple cost-efficiency to strategic partnerships in which outsourcing vendors become an important and integral source of new business ideas and methods. Joint innovation programmes enable the client and the vendor to work together in developing responsive, effective business models.

Innovation in IP and legal outsourcing can be understood under the headings of generation, actualization, prioritization and development of new service offerings.

An example of innovation in outsourcing project development is the use of an algorithm or a program that assists in the identification of candidate functions for outsourcing, based on qualitative and quantitative parameters.

The influence of the parameters on a given function (if outsourced) can be quantified using a defined metric system and based on a calculated score; in this way, a list of the most profitably outsourceable functions can be generated.

Such an investigative process can only be implemented successfully within a synergistic and collaborative vendor-client relationship; the vendors need to take into account the various parameters and their influence, both of which can be very subjective depending upon a particular function for a given

client, and therefore they need a high level of access and communication with the client.

Interestingly, IBM recently filed a patent application titled "Strategic Global Resource Sourcing" (US 2009/0083107 published on 26 March), which is an attempt towards creating a machine for determining sourcing strategies.

Innovation can also lead to a novel method of performing an existing IP or legal function, where the novelty brings about considerable savings in cost and time. For example, in IP and in legal outsourcing, partial or complete automation of functions such as patent analysis, valuation, proofreading and maintenance can result in improved efficiency, cost effectiveness and accuracy of results.

It is the responsibility of outsourcing vendors to initiate such innovation, inspiring their clients to think beyond the typical boundaries of tried and tested processes so as to come up with new and better ways of managing IP, either at the operational level or the services level. The next phase of joint innovation could be the piloting of new methods, embodying the innovation within a controlled environment. The success of such pilot programmes may usher in customized IP and legal service offerings which can be prototyped and brought to the market as a new service.

The ultimate goal of joint innovation should be the generation of a fresh, customized business model that provides an inherent and appreciable value proposition for the client, and a characteristic differentiator for the vendor in terms of proven ability for lateral thinking in outsourcing.

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## Freedom of speech and the right to privacy

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Individual freedom of speech is widely accepted as an inviolable liberty of all citizens in a true democracy. A free press is equally and vitally important, enabling the dissemination of independent information and the sharing of ideas and opinions. However, as in the case of all other rights, the constitution limits the freedom of the press, making it subject to reasonable restrictions in the larger public interest.

Information technology plays an extremely important role in society today; information is more readily and easily accessible than ever before. For example, it is not difficult to use the internet to trace and research personal details about others.

When advanced methods of information retrieval are combined with the existence of detailed databases containing sensitive personal information – such as those maintained by banks, hospitals and public authorities – there is potential grave danger to the protection of individual liberties, especially the right to privacy.

AC Breckenridge defines privacy as “the rightful claim of the individual to determine the extent to which he wishes to share himself with others and his control over the time, place and circumstances to communicate with others [and] to control dissemination of information about himself”. The Supreme Court of India has recognized the right to privacy, defining it in *Sharda v Dharampal* (2003) as “the state of being free from intrusion or disturbance in one’s private life or affairs”.

Despite widespread acknowledgment of privacy as a right (for example, in the Universal Declaration of Human Rights and the European Convention on Human Rights), in India there are no specific constitutional or statutory provisions for its protection. The Supreme Court has included privacy within the

“right to life” under Article 21, and in a few cases has accorded protection to it. However, the silence of statute on the subject means that attacks on privacy go effectively unanswered in Indian law.

While freedom of speech is widely protected, it is limited by the requirement to avoid publicly divulging information that is likely to encroach upon an individual’s private life and affairs. This requirement was recognized as far back as 1890 in the US, when in the *Harvard Law Review* Warren and Brandeis stated, “The press is overstepping in every direction the obvious bounds of propriety and of decency” and noted that “the intensity and complexity of life attendant upon advancing civilization have rendered necessary some retreat from the world, and man, under the refining influence of culture, has become more sensitive to publicity, so that solitude and privacy have become more essential to the individual.”

In India, most early cases in relation to privacy revolved around state control over individual liberties. However, in the past few years there have been a growing number of cases relating to invasion of individuals’ privacy and personal space by the media. For example, the case of *Sheila Barse v Union of India* (1987) involved questions of journalistic freedom and individual liberty; the Supreme Court held that there must be a balance between the two interests, and that no person (whether or not they are a prisoner) should be compelled to grant an interview or have photographs taken.

However, it was in the case of *R Rajagopal v State of Tamil Nadu* (1994), over the disputed publication of an infamous murderer’s autobiography, that the right to privacy in the context of freedom of speech was first discussed. The Supreme Court held that

“the press had the right to publish what they claimed was the autobiography of Auro Shankar in so far as it appeared from public records, even without his consent or authorization. However, if the publication went beyond the public record and published his life story, that would amount to an invasion of his right to privacy.”

Issues of privacy also arise in connection with data theft; it is not rare to find cases where personal information is made available due to lack of adequate protection. The absence of specific legislation in this regard is often felt, and the liability of persons entrusted with the protection of sensitive information is often unclear, being usually based on contractual relations.

While most countries have enacted protective legislation (for example, the Privacy Act, 1988, and the Data Protection Act, 1988, in the UK), there is still a long way to go before Indian legislation can protect individual and personal information. The Information Technology Act, 2000, incorporated provisions that make the disclosure of information contained in an electronic record without the consent of the concerned person a punishable offence; yet surprisingly there is no liability for persons obtaining illegal and unauthorized access to such information.

It is vital that press freedom and liberty of speech are maintained, yet individual privacy is equally vital to democracy. It is imperative that a balance be found between the two freedoms.

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## Analysing restrictions on the transfer of shares



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The issue of restriction on the transfer of shares of a company incorporated under the Companies Act, 1956, has been an area of concern for some time. While the law is fortified under the act, which has specific provisions dealing with the transfer of shares, there have been several judicial pronouncements arising out of disputes between various persons in this regard.

Section 82 of the act provides that shares of a company incorporated under the act will be movable property, transferable in the manner set out in the company's articles of association. Thus, a restriction on transferability not contained in the articles of a company would not be enforceable in law.

The case of *VB Rangaraj v VB Gopalakrishnan* involved a family consisting of two brothers, who held 25 shares each in a company. In accordance with an oral agreement (and not incorporated into the articles of association of the company) between the brothers, each of the family's branches would always hold an equal number of shares. The agreement stated that if any member in either branch wished to sell their shares, he would give the first option of purchase to the members of his respective branch and only if the offer was rejected, would the shares be sold to others.

Contrary to the agreement, the defendant sold the shares to the other branch without first offering the shares to his own branch. The Supreme Court, relying on *Shanti Prasad Jain v Kalinga Tubes*, held that the articles of association are the regulations of the company, binding on the company and its shareholders, and regulating the transferability of shares of a company, which are a movable property. It further held that the only restriction on the transfer of shares of a company would be those laid down in its articles and any restriction not specified

in the articles is, therefore, not binding on the company or its shareholders.

Pursuant to the decision of the Supreme Court in Rangaraj's case, in the wake of the Depositories Act, 1996, the Companies Act was amended to incorporate section 111A providing for the free transferability of shares of a public company, subject only to the provisions of that particular section.

The principle of law enunciated in Rangaraj's case was followed by Gujarat High Court in *Mafatlal Industries Limited v Gujarat Gas Company Limited*, Madras High Court in the case of *Crompton Greaves v Sky Cell Communication Limited* and Bombay High Court in the case of *IL & FS Trust Co Ltd v Birla Perucchini Ltd*. In the last case, Bombay High Court went as far to say that since Rangaraj's case relied on Kalinga Tubes, the principle laid down by the Supreme Court in Rangaraj's case is not confined to a situation involving only a transfer of shares.

Delhi High Court, in *Pushpa Katoch v Manu Maharani Hotels Limited*, has gone a step further and said that in the case of a public company, a restriction on transfer of shares irrespective of the fact that it is incorporated in the articles of association would be void and unenforceable.

The issue of transferability of shares arose once again for consideration before the Supreme Court in *MS Madhusoodhanan v Kerala Kaumudi Pvt Ltd*. The Kerala Kaumudi case involved a dispute between four brothers of a family who held shares in a private limited company promoted by their parents. At the root of the dispute lay an agreement dated 16 January 1986 (the Karar) executed by the four brothers and their mother. The Karar provided that after the death of the mother, the shares in the company would be transferred to divide the effective control of the various family concerns among the four brothers.

The Karar provided that Madhu-

soodhanan would be entitled to 50% of the total shares of the company including the shares owned by one of the brothers and the remaining two brothers were to receive 25% each. On the death of the mother, Madhusoodhanan filed a suit for specific performance of the Karar and transfer of shares in accordance with the terms of the Karar.

When the case came up in appeal to the Supreme Court, the respondent sought to argue, on the basis of Rangaraj's case that since the terms of the Karar were not included in the articles of association of the company, it would be unenforceable. Rejecting the argument, the court, after discussing the decision in Rangaraj's case, held that the decision does not in any way state that the transfer of shares agreed to between shareholders did not bind them or cannot be enforced like any other agreement.

The Supreme Court reinforced the law laid down in Rangaraj's case and so has only made a distinction between an agreement to transfer shares between particular shareholders (as in the Kerala Kaumudi case) on the one hand, and on the other, an agreement imposing blanket restrictions on the ability to transfer shares on all the shareholders, present and future, contrary to the company's articles of association, as in Rangaraj's case.

The applicability of the decision in Kerala Kaumudi case must thus be restricted to agreements for transfer of shares between parties and does not extend to agreements imposing restrictions on the transferability of shares, which continues to be subject to the law laid down in Rangaraj's case and the provisions of the Companies Act.

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## Investment opportunities in US financial services assets

By *Waajid Siddiqui*  
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The Public-Private Investment Program (PPIP) that was announced on 23 March by the US Treasury Department (UST) presents significant opportunities for private investors looking to take advantage of current market uncertainty. The PPIP encourages investment into “toxic” or “legacy” assets, or troubled assets related to real estate. By enabling banks to cleanse their balance sheets of those assets and raise new capital, the government hopes to restore the banks’ liquidity and allow them to resume lending to consumers, homeowners and businesses. Banks insured by the Federal Deposit Insurance Corporation (FDIC) that are not owned or controlled by foreign entities are eligible to participate in the programme.

The PPIP will combine between US\$75 and US\$100 billion of capital from the UST with private capital and other government financing to generate US\$500 billion of purchasing power, with potential future expansion up to US\$1,000 billion. The PPIP comprises two separate initiatives: one focused on mortgage loans (legacy loans) and the other on securities backed by illiquid assets, such as residential and commercial mortgage loans (legacy securities).

The FDIC, which is charged with implementing the PPIP together with the UST, has yet to fully define the scope of these initiatives. However, it is already clear that the PPIP offers a rare chance for foreign investors to develop strategic partnerships in the US and earn access to valuable US investment opportunities by providing public capital support.

The legacy loan initiative targets distressed loans, including sub-prime mortgages and underwater commercial property loans, by creating a price discovery mechanism and adding attractive purchase terms. First, each eligible bank creates a portfolio of the US-based legacy loans and assets it has for sale.

The FDIC, after consulting a third party valuation firm, then determines its financing guarantee amount for each portfolio, up to a six-to-one debt-to-equity ratio. Portfolios are auctioned to pre-qualified private investors or investor groups, who are bidding on the right to provide equity financing.

If the bank accepts the winning bid, the investors partner with the FDIC and the UST to form a Public-Private Investment Fund (PPIF) to acquire the portfolio. PPIFs will consist of at least 50% equity provided by private investors and up to 50% equity provided by the UST in a non-controlling position. The UST will also receive warrants in the PPIF. Profit and losses earned by the PPIFs are shared equally by the investors and the UST, based on equity contributions. The investors handle asset management and servicing, subject to FDIC oversight.

Within the legacy securities initiative, two separate programmes will assist banks looking to remove distressed mortgage-backed securities from their balance sheets. The first programme builds on the Federal Reserve’s existing Term Asset-Backed Securities Loan Facility (TALF). Investors will receive TALF loans to purchase non-agency mortgage-backed securities (that is, those issued by private firms rather than Fannie Mae or Freddie Mac) that were originally rated AAA, and commercial mortgage- and other asset-backed securities that are AAA rated.

In the second programme, the UST will partner with pre-qualified private investment fund managers to form legacy securities PPIFs. These PPIFs, funded by UST equity and at least US\$500 million in private capital raised by the managers, may initially buy non-agency real estate securities rated AAA and issued before 2009. Eligible PPIFs also have access to TALF funds and government debt financing through secured non-recourse loans.

Fund managers will select, price,

liquidate and trade the securities. The UST’s tentative criteria for managers include the capacity to raise at least US\$500 million, experience of investing in eligible assets and a minimum US\$10 billion of eligible assets under management. Profit and losses are split pro rata between private investors and the UST, with additional warrants granted to the UST. As these securities are among those hardest hit by the economic downturn, government backing offers potentially large rewards with limited risk.

The UST has preemptively addressed some important concerns about the PPIP, and issued swift responses to others as they emerge. For example, to eliminate insider dealing, legacy loan PPIFs may not buy from sellers that are affiliates of legacy loan investors or that provide 10% or more of the PPIF’s total private capital. These restrictions also apply to legacy securities, with additional bans on purchasing from sellers serving as fund managers of other PPIFs.

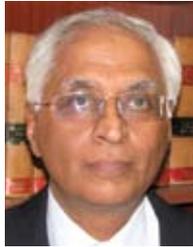
Foreign investors with US headquarters may qualify for these programmes. However, the government has not stated whether PPIFs will have US tax liability. Executive compensation limits attached to other recent government disbursements do not apply to PPIF investors, unless the investor has already accepted bailout funds. Additionally, the PPIP covers a broad group of entities: legacy loan investors may include financial institutions, individuals, insurance companies, mutual funds, publicly managed investment funds and pension funds. Given the structure of US private equity and hedge funds, regulatory limitations on foreign ownership and control of the investor base will continue to evolve.

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## Competition Commission faces multiple tasks

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From curbing monopolies to promoting competition, India has evolved from a gendarme policing big businesses into a dynamic regulator of competition. The object of the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP), was to prevent the concentration of economic power, restrict the formation of monopolies and prohibit unfair trade practices.

The Competition Act, 2002, was introduced to supersede the rigidly structured MRTP and reform the legal system; it aims to sustain competition, encourage free markets and prevent anticompetitive practices. This is in line with the current World Trade Organization philosophy that competition spurs efficiency, lowers prices, improves quality of goods and services and leads to both greater product differentiation and an enhanced spirit of innovation.

The act is easily distinguishable from the MRTP; its scope is wider and it is empowered to address abuse more specifically and effectively. For example, under the act consumer protection forums are assigned to actively counter unfair trade practices which affect end users. Under the MRTP, monopolies per se were prohibited, whereas under the act it is the abuse of a dominant position which is prohibited. Overall, the act seeks to prevent and redress appreciable adverse effect, rather than economic dominance itself.

Similarly, the act does not focus on all anti-competitive agreements which could potentially restrict competition, but rather those which actually have an appreciable anti-competitive effect. Broadly, the act seeks to check abuse of dominance and agreements of combinations which limit or restrict competition. A unique feature of the

act is the role of the new Competition Commission of India (CCI) in competition advocacy, which involves advising government on the implementation and likely effects of competition policy. The CCI became functional on 1 April.

The MRTP commission (MRTPC) was empowered to undertake enquiries and follow them up with enforcement actions, such as passing cease and desist orders, awarding compensation to aggrieved persons and directing the modification of impugned clauses of trade agreements.

During the course of an enquiry, it could temporarily restrain a delinquent enterprise in order to put an immediate stop to prohibited trade practices. However, penalties could only be imposed by a sessions court in cases where parties failed to comply with MRTPC orders, or to submit information sought by the MRTPC or by the director general (investigation and registration). The MRTPC was inherently weak as it had powers merely to censure a defaulter, or direct it to offset losses it had caused.

By comparison, the CCI has jurisdiction to oversee and regulate anti-competitive agreements (such as cartels and bid rigging), rectify abuses of dominant positions, regulate combinations and undertake competition advocacy.

Unlike the MRTPC, the CCI is vested with powers to inquire directly into cartels of foreign origin. The act further empowers the CCI to review and rectify its own orders, make a reference to statutory authority and execute orders imposing monetary penalties; it also excludes jurisdiction of civil courts in matters which the CCI is empowered to determine. MRTPC has no further power after it passes a final order, and the law does not confer any

jurisdiction on it to take cognizance of offences, which only sessions courts are competent to try.

The regulatory role of the CCI is comparatively strong because it has been granted powers that the MRTPC lacks.

During the course of enquiry into cases of anti-competitive agreements and abuse of dominance, the CCI has the power to grant interim relief restraining a party from continuing with such abuse. The CCI may direct an enterprise to discontinue and not to re-enter an anti-competitive agreement or abuse dominant position; impose a penalty of not more than 10% of average turnover during three preceding years; modify agreements, direct division of an enterprise or pass such orders as it may deem fit.

The CCI has the power to approve, disapprove or modify combinations depending upon its findings as to any appreciable adverse effect on competition. Unlike the MRTPC, the CCI has the power to direct the division of an enterprise that enjoys a dominant position, to ensure that it does not abuse that dominance.

The CCI will hopefully blaze a new trail in balancing the interests of business and the tenets of competition, thereby serving the need to encourage economic growth while protecting consumer interests. As a regulator, the challenge it faces is to detect and curb abuse by marauding behemoths while not undermining growth, given that strategic alliances and consolidation are key features of a dynamic market.

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# Legal Outsourcing Management Strategies 2009

3<sup>rd</sup> & 4<sup>th</sup> June 2009

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## PROGRAM OVERVIEW

Currently the global and domestic economy faces drastic challenges. There has been much focus on legal outsourcing to counter and service effective cost cutting solutions, risk free service, timely managed work and quality end result. To be able to deliver these solutions it is very important for LPO firms and BPOs looking to target the corporate group to have a sound management process.

More than US 200 Bn is spent annually on legal services, which keeps rising by 5-7% every year. This has resulted the involvement of small & large law firms, LPOs, sole practitioners, BPOs, attorneys, legal research companies, and legal departments of various corporates who have realized the need and importance of outsourcing.

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- Know about existing domestic opportunities for outsourcing
- Have a greater understanding of the industry in the buyers and vendors market
- Discover effective marketing and business procurement strategies
- Learn how to measure the ROI in your legal outsourcing relationship
- Understand best practices to be followed to serve foreign clients

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