



**Show Me the Money: Bringing Transparency to Residuals & Royalty Payments
Recorded at RightsTech Summit, New York City**

with

- **Danny Anders, CEO & Founder, ClearTracks**
- **Razi Rais, Subject Matter Expert (Blockchain), Microsoft**
- **Cédric Cobban, President and Founder, PeerTracks Inc.**
- **Eugene Mopsik, CEO, American Society for Collective Rights Licensing**

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KENNEALLY: The business dictionary defines a black box as a device, process or system whose inputs and outputs and the relationships between them are known but whose internal structure or working is – pick one of the following – not well or at all understood, not necessary to be understood for the job or purpose at hand or not supposed to be known because of its confidential nature. And you can probably guess, I think, who on the panel here – which of the one, two and three they would vote for. It's not meant to be known when we talk about the black box in rights management.

In many rights-based industries, the notorious black box lives in the accounting department. Indeed, the music and film businesses both have reputations for black box business practices when it comes to calculation and payment of royalties. Creators and licensors can at least agree that they lack proper tools to track money effectively as it makes its way from the market to the distributor to the artist.

This panel will share with us how they are leveraging the inherent transparency of blockchain to improve the system of accounting and payments. Technology, though, they will tell us, is no longer the artist's foe but a friend instead. And to do that, we want to start with introductions.

From the very far end, Danny Anders. Danny, welcome. Danny is founder and CEO of ClearTracks, a rights management platform for directly clearing and monetizing rights for commercial uses and user generated content such as DJ mixes, remixes, gaming and Web video. ClearTracks uses smart contracts – we've been hearing a great deal about them – music recognition and crypto payments.



Beside him is Cédric Cobban. Cedric, welcome. Cédric is founder of PeerTracks. He founded that in 2015. And he designed the SounDAC blockchain and its ecosystem that is the foundation of PeerTracks. SounDAC is a membership organization in the cloud, a blockchain specifically tailored for the music industry that serves as a global database for copyrights.

Then we want to say hello to Eugene Mopsik. Eugene Mopsik, welcome. He is CEO of the American Society for Collective Rights Licensing. ASCRL collects foreign royalties for reuses of visual works that are licensed under foreign law, and ASCRL distributes those payments to its members. Gene served as the Executive Director of the American Society of Media Photographers from 2003 to 2014.

And then finally, immediately to my right here is Razi Rais. Razi, welcome. Razi is a published author, speaker and subject matter expert on blockchain and identity at Microsoft. In his current role, he assists enterprise customers in building and running blockchain solutions, with a strong focus on maintaining data privacy among smart contracts.

And Danny Anders, I would like to start with you, because I think you would agree with the premise of much of the discussion today, which is blockchain has great potential for addressing many of the problems, particularly around transparency. But as I've been listening, I've seen it kind of go back and forth – the pendulum swing from being about an enterprise solution to being about a solution that's going to work for artists. Where do you fall on that important question?

ANDERS: Well, what we've seen in the past, I think – we've had black boxes before. Right? PROs are notorious for having black boxes, where there's been not that much accountability, not that much transparency. Now we're building – hopefully the MLC is going to introduce another black box. But at the same time, we have systems today in place. If you look at, for example, ad serving systems that have the ability to track ad impressions – every single ad impression extremely accurately and pay for those impressions or other types of content – they are tracked pretty accurately.

The question is why are we using those tracking systems to accurately track and report and pay for actual use? Why do we need a black box? And so I think, if we want to expect accountability and accuracy and make sure the money's going to the right people, we need to eliminate that box and introduce a level of transparency so people can go in and check that work and make sure that they are accurate.



KENNEALLY: Right. But the emphasis that you place at ClearTracks is on the artist side of things. That's what I was trying to get at – that this is really an opportunity for artists if, whether or not there's a black box, they have some power, some more control than they've had in the past.

ANDERS: Yeah. And I think part of the issue – like the industry itself and publishers and labels – they do a pretty good job of registering and getting their things reported and tracked. But increasingly, I think you have a lot of independent artists, a lot of even producers working out of their bedroom creating content very quickly who don't have necessarily the support of the industry or the infrastructure and the labels and publishers to help them with that process, yet they're still creating content, putting content out and monetizing that content. How do we make sure that those guys are able to participate without having an understanding of an extremely complex system?

KENNEALLY: And you're giving them the tools to participate.

ANDERS: Right. So we've built a number of tools, including a VST that can be loaded into their DAW at the time of production, and they could start capturing metadata, they could start capturing split information and have all that stuff registered very early on, verified by their collaborators and making sure that everybody actually knows whose work went into it, and it can be tracked from very early on, without needing to necessarily use a publisher or use another label of anything like that.

KENNEALLY: Right. And Cédric Cobban, it was that concern about transparency – the lack of transparency – that got you involved in the blockchain game, so to speak, back in 2015, with PeerTracks. Tell us how your solution – how the SoundDAC platform is addressing these concerns.

COBBAN: Sure. We have to realize that the ecosystem we have at the moment – it relies a lot on pushing content out. So you go to an aggregator and you push content out to different streaming platforms. We have a different approach where, when the user comes in and puts his data onto the blockchain, it's pulled by the streaming platforms. So just there you have a difference in scalability where you don't have to physically find every single place and push your content over to. So as far as tracking goes, that helps tremendously, because it's – you only have one place to maintain, and these entities will be pulling the data from the chain.

Now, these entities pulling from the chain – whenever they stream something, they are pasting it directly to this central blockchain that can tell at exactly what time



which user on which platform streamed the data. So the blockchain acts as a one central place for multiple streaming platforms to report to. And this is all reported in real time. The artist has access to that as well. He can use any third-party service – a block explorer in blockchain terms – or the front end can provide that service for him. Does that –

KENNEALLY: Well, it begins to answer the question. I was going to ask you about the catalog. So PeerTracks, we understand, has something like 5,000 titles at this moment?

COBBAN: Yeah.

KENNEALLY: Address the question of scalability and how you can incentivize artists to begin to participate in all of this.

COBBAN: The incentive is pretty easy because, once you start removing some middlemen, which are very useful in this current ecosystem – for example, people trying to funnel money over to you – you want those people in your life – those are great – but once you have a system that doesn't require that, it's – the payout is much, much, much higher, because you no longer have to divvy up the royalty payments, which are sometimes tiny. At the end of the day, once it gets to you, there's almost nothing left.

So the incentive is actually – I mean, yes, there is the transparency issue, but money talks. And when you have a stream that pays you 10 times what you're normally getting – you've all seen the graphics of which streaming platform pays how much per play – we have a band that jumped on PeerTracks. They got 13,000 spins, which is not, you know, crazy, but they made US 700 USD from that, just because there are no middlemen required.

There's no TuneCore or CD Baby required to push it out to all these platforms. You put it in one database, and it's pulled by every single platform, so right there there's no middlemen. They're just pulling whatever they want to stream. And once they stream, there are no middlemen for the payout to happen. They've just reported it like they normally write to their own database. Spotify writes down on their database what was streamed on their own platform.

In our case, they just write it down to the public one. And that public database is actually a tokenized blockchain that rewards the artist in tokens. So in this whole process, there was never a human that touched anything. That means no pensions



to pay, no buildings to heat, no traffic to suffer through – none of that. So once you remove all of that and you have the same process, it's insane how much money you actually have as an artist. I haven't done the math, which I totally should have, but 13,000 spins divided by – 700 USD divided by 13,000 spins – it's something like 70 cents. That's absurdly high compared to the regular penny –

KENNEALLY: That's important compared to others – yeah.

COBBAN: Yeah. So that would be the self-interested pitch for the artist – for, yeah, the transparency – how about getting paid? I want a transparent ledger.

KENNEALLY: And finally, we've been hearing throughout the day about the aspects of blockchain that make it so attractive in this situation. And it comes down to trust, and that's really critical to that because of the irreversibility of the data and the rest of it. But talk about how trust plays a role in bringing artists into this.

COBBAN: Well, trust – for us – well, OK, so a lot of the blockchain speech is always about trustless networks. They want to remove trust, so you no longer have to depend on trust. So just a little –

KENNEALLY: It's an interesting semantic point. Yeah.

COBBAN: Right. So what we're trying to do is remove trust from the streaming platforms. And this is why they have incentives to go onto the transparent system, and that incentive is getting subsidies for doing so. So if you start up a streaming platform tomorrow, you have a huge expense. You have many expenses, one of which is paying out the royalties.

Now why would you, as a company, jump on to a blockchain? Why wouldn't you just keep all that data, which is very valuable? Why would you report it to a transparent chain? Well, the incentive here is because you're getting subsidized your most important expense. Spotify's biggest expense is royalty payments – 70% of it. That's higher than taxes. That's a giant expense. So if you have a system where, OK, not only do I offload my database and it's already in sync globally with all the other platforms, I'm getting rid of that biggest expense. It's an economic no-brainer. Anybody – you know, whoever does your books would say how about we get rid of that giant expense we have of maintaining our own database, jump on the one that's already existing – and we're getting subsidized? That's a good deal.



You even see the – so the cost of maintenance is one thing, but the lawsuits that spring up from having a database out of sync with the real world – that’s a cost that we can’t – I mean you can calculate it by looking at lawsuits and – but you’re removing a legal risk as well by doing that, because you’re relying on the public ledger.

The Internet’s a good parallel. Why would you – if you start an Amazon store, you don’t have to build your own Internet. That was the ages of the intranet. You had to build your Website and maybe build an intranet and hope that yours is the intranet that wins. When the Internet came, it was a no-brainer – go on the Internet. You don’t have to build an internet. There’s one that exists already today. We’re all using it. If you start a business, you just start the business, you start the Website. You don’t have to build an ecosystem on top. This is the analogy we like to use to explain why you would jump on this system, because it’s not our system. It’s an infrastructure that is unowned. We don’t control it, nobody controls it, nobody has veto power over it. It’s something that everybody should just jump on, contribute – and they get incentives to do so.

KENNEALLY: Well, Gene Mopsik, you want people to jump onto what you’re doing, but it’s a totally different ballgame. It’s almost like a different universe. And it takes a second to bring people into it, because it is in fact a world where the middleman is necessary. Without the middleman, none of the distribution and the royalties that we’re talking about here can be delivered to the artists, to the creators.

And we should explain to people that – and we’ve been hearing about the differences in copyright law between US and the EU – in many countries in Europe, there are statutory licensing agreements that collect royalties for all kinds of reproductions – text and photography and images and so forth. They collect that money internally, and they identify certain pools of rights holders that they then need to distribute that money to on a national basis. So the ASCRL is coming in to be the national distributor for American rights holders. And up to this point for the particular types of work, that has not existed.

MOPSIK: Yeah. And listening to the previous two speakers, I have to say once again I feel as though the music industry is a quantum leap ahead of the photo industry for all kinds of reasons. But we just don’t have the kind of capitalization behind – you know, we tend to be an industry of, by and large, small businessmen, without the kind of aggregators that exist in the music space. But anyway – so ASCRL was created to – it’s not just for US rights holders. It’s for foreign rights holders who



have works published in the US – are also eligible to make claims for the non-title-specific distributions.

This whole thing is very foreign to US rights holders. What we created is a content management organization that right now, because we're precluded from collective licensing here in the US, solely what we're doing is distributing funds that are collected overseas primarily for reprographic work. And it amounts to millions and millions of dollars that's collected by levy and statute that then, by survey, it's determined how much is photo, how much is illustration, how much is text. And that money is distributed around the world. Well, there's been no entity here in the United States to distribute that money back to US rights holders and, by and large, the money has either been going to publishers or to trade associations.

KENNEALLY: So in essence, though, you are a middleman but in favor of the artists, in favor of the creators. You're really advocates to get that money –

MOPSIK: The individual rights holder – yeah. Right.

KENNEALLY: Right. And the technology isn't quite as advanced, if you will, as what Danny and Cédric have been telling us –

MOPSIK: It's more of a calculating database. It's – we worked with Music Reports to build our claims and distribution systems, so we have a system where people come in, they have to give us some basic information about themselves. The more complicated end of it is in calculating how the various distributions will be made and how the tiers are established for rights holders who have more or fewer works in the system.

KENNEALLY: In a way like a class-action suit often does in tiers – the recipients of funds.

MOPSIK: Yeah.

KENNEALLY: And then finally, so Cédric was telling us about the kinds of dollars that he can return because of the lack of a middleman. In this case, the middleman enables the money to come in. And how much money are we talking about this year?

MOPSIK: Well, we're hoping – right now it looks like – and again we've just kind of turned the switch, so we're seeking – we're about to go to the International



Federation of Reproduction Rights Organization meeting in Athens in two weeks, and we hope to lock up more agreements at that meeting, but we're looking at probably a little over \$1 million in the next year that we'll be distributing.

KENNEALLY: OK, so from zero to \$1 million in one year – that's not too bad. Razi Rais, I want to talk to you about blockchain because of the interest you have specifically in identity and privacy. And the aspect of a blockchain that we hear a great deal about is the way that it has persistent identity and irreversibility. Privacy, though, seems to be in conflict with that. How do you work out all of that – and explain the challenge there?

RAIS: Yeah. So that's a really valid point. And just to set the stage here, blockchain is – you can think about it like a database. You can do the transaction. It will be there forever – or whenever the lifecycle of that blockchain terminates. The point with the privacy that is important is that, unless you take extra measures to secure your privacy, by default transactions are not private. And there's something that sometimes becomes like a bottleneck for a lot of use cases that we work with – like for example, transparency versus privacy – especially when you talk about the public blockchains, if you are doing a transactions there and if you don't take certain extra measures, your data is actually there. Anyone can read it. So you have to be very careful with that.

So one thing with the privacy that is important is what type of data we are collecting and putting on the blockchain. That's number one. That's super important, especially – certain industries are more receptive towards privacy than others. For example, health care is one area we work with where, when you look at the actual data, it's critical that information always going to be there encrypted or not necessarily directly stored on the blockchain.

So what we are seeing right now is, because blockchain is such a new technology, the landscape is so new, that the infrastructure has been built right now. And at Microsoft, we – predominantly focusing right now on the enterprise space.

So think about like enterprises – working together create consortium models to look into blockchain from how we can – let's say four, five, three companies come together and create a private blockchain and do the transactions within that network for us. And that model is tested right now. So that's different from a public blockchain in certain ways, so there's a little bit of semantic differences between the two. Public blockchain is public. Anyone can join them. There's no resistance



there. The private blockchains are invite only, like you have to be in (inaudible), so that's a little bit difference there.

So from a privacy standpoint, there are a couple of things I quickly want to talk about. One is the privacy of an individual, like for example if you're an employee, you're getting in and you're doing a transaction, so your privacy needs to be important in the sense that, if you're making transaction as Bob, we know who Bob is – belong to your organization A but everything else is kept private. It's not going to be revealed – because you have to understand that that information is going to be retained pretty much forever.

That's a critical piece. It's like you can use it in any way – like it can be a transparency thing. When you make a transaction, the information is there forever. You can go back. You can audit it. You can use it in a court of law. But if you put something out there that is not desirable, you cannot retract that either. So that is going to be interesting to see how the technology evolves to cater that, because there are laws that prohibit you – like there's a law, for example, to be forgotten.

M: There's no right to be forgotten.

RAIS: Exactly. So you have to build those mechanisms into the blockchain because, if you already start using that platform and you put some information out there, you just cannot retract that. It's not going to happen.

KENNEALLY: It's interesting because we've been talking about black boxes – it's a lack of information – and now you're talking about the other side of that, which is too much information, it sounds like – or the potential for revealing too much.

RAIS: It's one of things that are like the side effect. So when you look at the technology holistically, there are strengths and some things that are not necessarily – you think about on a day one. But this is critical, especially for the public blockchain, as I look at it, because – think about it – today you can go in and, if you put some sensitive data out, then you'll just reveal someone's identity – let's say SSN – you put it on a blockchain – then that's out there. You cannot defend against that. So those are the conversations we are having right now.

KENNEALLY: And Danny Anders, you've written about blockchain from the perspective of not the technology side of things but the business side of things. And it's your sense that really the critical questions have to be asked on the business side – not exactly how the technology works. I mean Rais makes a point



about the infrastructure needs to be built out properly. But ultimately it comes down to business questions.

ANDERS: Yeah, there's two key components there. One is – as Cédric was saying – you have the potential to eliminate middlemen in some cases. You can do a lot of automation, do some smart things where you're basically creating a market that just operates on itself, so the value that a lot of the middlemen were bringing starts to get reduced – the same way that we saw the value of distribution go to zero – or practically zero – with the advent of digital distribution. So you're disrupting a lot of companies.

From a rights management standpoint and from a payment standpoint, you have the potential to disrupt publishers, labels, PROs. So the participation of those parties is going to be, I feel, limited or controlled in a way that they maintain that intermediary position. They're not going to want to lose that intermediary position. So I'm kind of skeptical to see how those organizations participate. There's a lot of initiatives where they're building blockchains to communicate with each other, but that's not necessarily for the benefit of the artist, because they're still the middlemen. They still extract value along the value chain. When you have an artist dealing directly in a blockchain with either their consumer or the DSP, you have a direct relationship, and so the money flows from one party directly to another party without other people extracting value. And so, as Cédric was saying, your royalty rate is much, much higher when you cut out all of those middlemen.

So I'm not sure if those parties are going to participate the way that we think the blockchain disruption is meant to disrupt. I like to say that it's like Bitcoin would have never launched or been successful to the extent that it is if you had asked the banks to participate, because you'd be disrupting their business. Right? So the same applies for the music industry.

So really the question is, you know, the artists are the ones that have the biggest interest in doing this, because they have the most to gain. I think Citibank just did a study recently showing that, once the money gets through the value chain, 14% of the money actually reaches the artists. If you can eliminate all of those middlemen, now you're looking at 50%, 75%.

M: That's (inaudible) highly, highly skewed.

KENNEALLY: We can argue about that in just a second. I have read numbers like that in other sessions here, so either they're all quoting the wrong source or there's



some agreement there. But let me turn to Cédric, because what Danny is talking about is the old world kind of getting ported into the new world. And I think you are envisioning this elimination of the middleman but beyond that, the opportunity for the artists to begin to monetize their works in new ways – not simply relying upon the old models but creating new models, and blockchain helps them do that. Talk about that.

COBBAN: Well, to touch on your point of the old world versus new world, what we're building is something parallel, so it's an opt-in system. It's an extra source of revenue. You can test it out. If you're a big label, you can test it out with a couple artists, see what happens. There are some markets that are very difficult to reach. This is a great system to reach those markets, since our price point is zero but the artist gets money at the end of the day. That's a complicated topic to get into but – yeah – we've had a prerequisite talk.

But the old model – there's a lot of benefits to them jumping on such a system – a lot of benefits. There's very key middlemen that can in fact be just rendered useless by it, rendered obsolete, but most people still have a huge expertise, a customer base, dispute resolution experience. There's huge value to almost every entity in the music business. Pivoting happens. Pivoting can be done. You have to pivot or you die. If look at the top Fortune 500 companies, there are barely any that were here 100 years ago, so it's normal. It's not – you know, this has happened before and before, and everybody's still alive and we're even happier today. We have more resources to do what we want. So there's not a this has to burn and this has to start – you know, we have to start fresh approach. It can be a transition.

Now, as far as the artist, why he benefits from going directly would be because is that –

KENNEALLY: Well, I was thinking more about that – I believe you have a program called Notes (sp?), which is an attempt to give artists a way to experiment with other ways of monetizing their work.

COBBAN: Right. So that was actually the previous concept. We re-pivoted (sp?) away from that for regulatory reason. It was gray zone – and if you're allowing artists to tokenize things, it might be SEC chaos, and you don't want to have a –

KENNEALLY: I don't want you in jail.

COBBAN: Yeah, exactly – right.



KENNEALLY: So but what about that, though, is the last question, which is just the ways that blockchain gives an opportunity for artists to come up with new business models.

COBBAN: Yeah. Well, yes, there is that. But one thing that I personally find interesting as a fan of music, as a listener, is the different types of content that can come out. If we take the example of the distribution, if you weren't reaching this many eardrums – a certain quota of eardrums – they weren't going to put your vinyl on a truck and shipping it across the country. There's no way that was going to happen. With digital distribution, it became easier. If you had only a couple thousand fans, it's worth it to spread those files around.

That being said, now you have a way to monetize even a niche market. If you take the example of an artist putting his content on SounDAC – and it's very easy to just pull that content up from the streaming platform – you have a price point of zero for the consumer coming in, so you might be reaching way more eardrums than you would have had.

So my point with this is you have many genres of music that can actually flourish because, if you have a \$9.99 subscription fee, you're only getting the middle class first world and up. All the rest of the planet – their tastes will never get supported financially. With this system, you can have this really weird music come out of an obscure portion of the third world country that you've never heard of, and it might catch on globally because, if he just has 1,000 listeners there, he's making a living, he's stopping his day job, and he's doing music fulltime.

KENNEALLY: It's the listeners that count. He's got the listeners that count. I want to wrap things up here. Danny Anders, Cédric Cobban, Gene Mopsik and Razi Rais, thank you all. (applause)

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