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Blockchain on the music and entertainment industries

What is Blockchain?

The blockchain is a decentralised online asset distribution system that is designed to cut the middlemen companies. In the real world, every trade is handled by the governing bodies like banks, shops, distribution companies within the law and regulations specified for the trade. It goes through many formalities and contracts. Especially in the Music Industry.

(Bettina Warburg, 2017)

Why is Blockchain technology essential for the Music Industry?

Intellectual property (IP) is the creation of the mind, and these include inventions, music compositions, paintings, designs, literary pieces, books, quotes, symbols, names etc anything that was created and originated from one's mind. And these properties are protected

by different laws and regulations such as copyright, trademark, patents if one is to use it for any commercial purposes.

What is intellectual property? (WIPO World Intellectual Property Organisation, 2017)

Currently, there are many rules and regulations in the music industry and blockchain technology would help musicians to bypass some of these complicated rules and regulations and get their work valued efficiently and quickly.

The music industry is run by a few Major enterprises and the artists are not represented fairly. There are many laws and regulations within the industry's intellectual property law sector that could get confusing. Within the music law sector, there are laws and regulations in every aspect of a music-making process to distribution. Producer agreements, music publishing, the artist, the songwriter, management agreements, collection societies, neighbouring rights, sponsorship, crowdfunding etc... And these areas of law are further broken down into contract and royalty laws. With the help of blockchain technology the music industry is hoping to cut down some of these regulations, and by having a system that is going to create a blockchain of secure and reliable data, recorded by all the parties anticipated, the trade would run smoothly and efficiently. It is not a centralised system, and every aspect of the transaction data recorded into every computer used. Hacking, changing the data would be almost impossible. By having a reliable and trustworthy data, it would reduce the unnecessary contracts and by directly connecting artists to the consumers will reduce the middlemen companies and their royalties.

The blockchain technology is set to change the traditional ways music industry runs, help reduce the issues surrounding music royalty issues and intellectual property. By cutting off the middlemen and connecting artists directly to consumers, artists profit from their work faster. Some middlemen companies are collecting as many royalty shares as 50% on the intellectual property that created by artists with blood and sweat.

Blockchain & The Music Industry: (A NEST 2017)

Blockchain commercial uses:

Economists have been studying human behaviours for decades. How we make decisions, exchange ideas and how we trade with one another. Also legal systems, marketplaces and corporations.

However, there is a new technological institution that will change the way we exchange value, and that is called Blockchain.

From this study exhibited, we humans need certainty to exchange values and to make trades.

One of the pioneer explorers was a Noble economist Douglas North, who passed away in 2015. He explored method called "New Institutional Economics." In this case, institutions refer to constitution and constraints. These facilities were the running forces of our traditional economic wheel. Human trading has begun in the forms of hunting, gathering and trading within families in the village. And as the trade grew over time in distance and size we have built institutions like banks for currency, corporations and governments. Due to the growth of uncertainties in the business, as the sales increasingly grew more prominent, it became harder to control, and therefore these institutions assured us in trades with one another.

And now this day and age we built same institutions and marketplaces online. Amazon, Alibaba and eBay are faster and reliable middlemen companies to enable our trade on the growing internet market.

(Bettina Warburg, 2017)

What is Blockchain in commercial use?

It is a decentralised database system that records assets and transactions between the trading bodies. It is a public record of what sales completed on the Internet. The transaction history is recorded in cryptography, and over time these files are secured in the blockchain of

a database. This network creates robust, unforgeable data that replicated by every computer in use.

The best way to describe this system be somewhat like Wikipedia. Information that builds on by the public as it goes on changing, but also we can see the history and the changes over time, an open platform for all to see. In Blockchain, it is an open infrastructure that stores ownerships, custodianships and location of assets, contracts, real-world objects and personal information that can identify an individual. This system is going to change the way we trade and eliminate uncertainties radically. There are three main uncertainties we face in our everyday trading phase. Not knowing the person we are trading with, the invisibility of transaction completed and the ability to retract if things go wrong.

For instance, when trading within an unknown individual, if one wanted to buy a mobile phone on eBay, that person would first check the trader's profile page, reviews and checks to eliminate the uncertainty. Those act as proves of our web identity and help reduce risk. However, this system is very fragmented, and there are too many different pieces of profiles and information from various sources. The Blockchain, on the other hand, will facilitate an open global attestation platform that cryptograph information from every source. It is a user-controlled identification system that would encourage trades between people. This information could be government IDs, certificates and reviews etc. Having this identification both in the real and the digital world would open up new ways people interact and trade with one another.

(Bettina Warburg, 2017)

Blockchain legal implications:

At the beginning of the Internet ages, it was difficult to predict and understand for lawmakers a drastic change it would have in our daily lives.

Blockchain technology is going to change the way we trade and run transactions radically. As the transactions happen in the digital domain, it would bypass the authoritative intermediaries typically our governments relied on to implement laws and regulations to control money laundering, drug dealing or human trafficking. It is going to set to create more difficulties between the lawmakers and the Blockchain technology creators.

A leading blockchain technology specialist CIGI Senior Fellow Julie Maupin quotes:

“You can only go so far if you are not willing to engage with the lawmakers and the regulators,” as (Julie Maupin 2017) expressed her concern on dealing with the issue especially to address cross-border regulatory concerns.

She said *“Innovators need to sit down and talk to lawmakers and explain: “We want to do something good. But because of the way that our technology works we can’t fit within your existing regulatory regime.”* (Julie Maupin 2017)

"If innovators don't take this step, they are going to come across barriers that make it impossible for their vision to become reality."

It brings together law, technology, public policy and economics.

The government should adapt themselves to the new technology and come up with what policies should be implemented.

For:

Financial Market Regulations

Taxations

Consumer protection

Data Privacy.

And the technological community needs to collaborate what kind of government association they are seeking for to implement the development of the new technology successfully.

(Julie Maupin 2017)

New technology development is not prohibited by law or jurisdiction in the USA and many other countries. However, as the Blockchain technology is in its infant state, it often faced with regulatory, legal constraints and implications. The Blockchain and cryptocurrency related law and regulations can be divided into two categories: 1. Enabling and 2. prohibitive.

(Morris, Manning and Martin, LLP 2017)

Enabling Legislation:

In the United States and around the world under many jurisdictions have introduced certain rules to enable Blockchain technology to grow to its fullest potential. One of the prominent examples would be digital signature enabling legislation. The digital signature is accepted as a genuine signature by the United States and internationally subject to certain exceptions like (consumer loan documents). With the authenticated digital signature smart contracts are proceeded in a legally binding way and validate trades, transactions over Blockchain technology.

(Morris, Manning and Martin, LLP 2017)

Prohibitive Legislation:

Securities law:

Many sales made by using the token or cryptocurrency have a potential to implicate the US and international securities laws. In the United States investment contracts to be considered within the security law usually pass by something called Howey Test. The Howey test checks token or cryptocurrency through three different tests. 1. Investment of money, 2. in a common enterprise 3. expected profit. Whether these elements met depends upon the particularity of the facts and circumstances of the item.

(Morris, Manning and Martin, LLP 2017)

Money Transmission Law

Generally, money service business laws rules and regulations apply when an intermediary is involved in an exchange of money or value between two third-parties except for certain situations depending on the subject. After accounting, guidance issued by the Financial Crime Enforcement Network (FinCEN) blockchain business trades and cryptocurrency exchanges mostly fall into this category.

(Morris, Manning and Martin, LLP 2017)

The guidance issued by FinCEN states:

“administrator” or “exchanger” that (1) accepts and transmits a convertible virtual currency or (2) buys or sells convertible virtual currency for any reason is a money transmitter under FinCEN's regulations, unless a limitation to or exemption from the definition applies to the person. An “exchanger” is a person engaged as a business in the exchange of virtual currency for real currency, funds, or other virtual currency. An “administrator” is a person engaged as a business in issuing (putting into circulation) a virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency. FinCEN went on to state that a “person that creates units of convertible virtual currency and sells those units to another person for real currency or its equivalent is engaged in transmission to another location and is a money transmitter. In addition, a person is an exchanger and a money transmitter if the person accepts such de-centralized convertible

virtual currency from one person and transmits it to another person as part of the acceptance and transfer of currency, funds, or other value that substitutes for currency.”[1]

(Morris, Manning and Martin, LLP 2017)

In the United States affirming cryptocurrency legislation like BitLicense. Any companies are in the issuance, administering or exchanging cryptocurrency or digitised assets over blockchain must check if the company is operating within these rules and regulations.

(Morris, Manning and Martin, LLP 2017)

Tax Regulations

If a token sale is conducted, when the token is not a security but in sales, the company whose business is profiting and generating revenue should also check the tax laws under that jurisdiction.

Bitcoin and other cryptocurrencies are properties and not currency according to the IRS (International Revenue Service). So if the sale was conducted and a company received a particular value of Bitcoin instead of US dollars after the 50% percent appreciation market value of Bitcoin rise, the company will profit 50% in capital gains and unburdened from any tax of that sale.

(Morris, Manning and Martin, LLP 2017)

Why is Blockchain unique?

Purpose of the Blockchain is really to track the ownership. This is to determine if an individual has the ownership right to this particular product. This could be anything. This is about the assets that people can own or exchange and what internet sharing of information. Blockchain allows us to transfer the ownership of one's property over the internet without

having to go through the essential intermediary parties. You can only go so far with the internet inventions of technology without engaging with the lawmakers and the regulators. One would reach a point cannot carry on with innovations that do not fit with the existing regulatory system as the technology takes us to the next level. And many sectors of the government have allowed individuals to organise their lives as they see fit as long as they do not cross these boundaries lines that are created, people can act freely. Those are the questions to be answered. As a new type of technological advances made, options set what individuals can do private-order (The process of setting up social norms by the parties involved in the regulated activity and not by the state) and how this private ordering system can relate to the public ordering system that serves the governments. Thanks to the Blockchain technology this has expanded greatly. It is inherently transnational, crosses borders, jurisdictions, and it does not make sense to be tied down into the jurisdictional system.

(David Holland 2017)

Why is blockchain technology influential in the music industry?

Imogen Heap, a British singer and songwriter, is one of the leading artists aiming to use the blockchain technology to revolutionise the British music industry. She seeks to build a fair trade music industry bypassing the middlemen companies such are Itunes and Spotify to provide musicians more ownership and money over their work. The idea is to use websites like Ujo music where song's metadata is encrypted to pay directly to the Producers and the Artists to utilise the cryptocurrencies like Ether or Bitcoin.

(Lily Kuo) 2016

"This information would also be including the song's credits, terms of usage dictated by the artists, This information would consist of where the song is played, when it is played and any transaction details. It is tracked using blockchain technology, a method of digital recording transactions used first for Bitcoin."

(Lily Kuo) 2016

Before the internet took over the music industry, it was primarily run by the Major Music Labels. As the technology advances and the affordable home studio increases, the artists presented more opportunities to take a full control of their artistic productivity more than ever before. With this technological advancement the music production has increased significantly, and by the internet taking over, the digital music streaming and downloading has become the present day's consumption. And as it grows, the piracy and copyright issues have raised. The way customers consume music has changed. Since so much music is circling online, the artistic and intellectual properties are not adequately protected and valued, and the artist's royalty payment are calculated insufficiently. With the help of the Blockchain technology, all the relevant information can be encrypted into the metadata used by the chain of companies. To change or alter its system would be almost impossible and that makes the Blockchain technology a powerful tool for the music industry.

The critical information of the artist fanbase location, songs streamed numbers are encrypted in the data that gives a forefront advantage to the artist to apply lean methods to their artistic directory. With the help of this type of information, artists would obtain bespoke tools to manage their career more effectively. In this day and age, as the music industry's revenue largely depends on the live tour performances, the artists would be able to pinpoint their fanbase location to reach their audience.

(Duke Law, 2017)

Conclusion:

Blockchain technology is an inevitable future. From the days we gathered, hunted and traded within village environment to today's technological era the way humans traded with one another has drastically changed. The blockchain technology is a very natural human progression and evolution that comes with the Internet era. As Bettina Warburg mentioned in her Ted speech some predict it will end the world poverty and some think it will stop the black market trades, and in this conclusion, we believe that blockchain technology is going to change every aspect of our lives for the better.

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