

## **The Distribution Rules Guide**

PPL licenses recorded music played in public or broadcast and then distributes the licence fees to its performer and recording rightholder members. PPL's sister company VPL licenses music videos played in public or broadcast and then distributes the licence fees to its music video rightholder members. For more information about what uses of music PPL and VPL license please visit our website at <http://www.ppluk.com/music-licensing/>

In general PPL and VPL apply the same processes to allocate and distribute revenue with the exception that VPL does not allocate any part of its revenue to performers. Once money has been collected from licensees in the UK and other music licensing organisations from around the world, PPL calculates how much each member has earned and after tax and running costs have been deducted, distributes the money to the relevant members as royalties. The way that PPL and VPL apportion revenue and costs between the various copyright owners and, in the case of PPL, performers, and make distributions is governed by detailed Distribution Rules.

There are three different sets of rules:

1. The PPL UK Distribution Rules
2. The VPL UK Distribution Rules
3. The PPL International Distribution Rules

This document is an accessible guide to the Distribution Rules. This guide also sets out some other useful information about PPL's and VPL's distribution practice that is not set out in the formal rules, including PPL's and VPL's normal policy in cases where the Rules themselves necessarily give PPL and VPL discretion. This guide can be read in conjunction with the Rules or as a stand-alone explanation. We will keep this guide under review and will add information on matters in response to queries we receive. If this guide does not provide the information you are looking for please contact us and we will do our best to answer your query. This guide is intended to be explanatory only and does not create any obligations. In the case of any conflict between this guide and the Rules themselves, the Distribution Rules take precedence.

### **How are the Rules Adopted, Changed and Published?**

The PPL UK Distribution Rules and the International Distribution Rules are agreed by the PPL Board. The VPL UK Distribution Rules are agreed by the VPL Board. For more information on who sits on the PPL Board, Performer Board and VPL Board and how they operate please visit our website at <http://www.ppluk.com/about-us/ppl-and-vpl-boards/>. The Distribution Rules will be updated from time to time as and when required and updated versions will be published on our website.

The application of the Rules is also overseen by the PPL or VPL Distribution Committee, as appropriate, the members of which are appointed by the PPL and VPL Board respectively.

## **Which Revenues do the Rules Apply To?**

There are three different sets of rules each of which applies to a different type of revenue:

1. The PPL UK Distribution Rules apply to the distribution of monies collected by PPL in respect of the licensing of the rights controlled by PPL in the United Kingdom;
2. The VPL UK Distribution Rules apply to the distribution of monies collected by VPL in respect of the licensing of the rights controlled by VPL in the United Kingdom; and
3. The PPL International Distribution Rules apply to the distribution of monies collected by PPL from collective management organisations in respect of the exploitation outside of the United Kingdom of the rights controlled by those of PPL's members who have appointed PPL to collect such monies.

Each of PPL and VPL also directly operate a small number of licenses that cover broadcasting or similar services outside of the UK. For example, some PPL licences for online services cover countries other than the UK on behalf of other collective management organisations via the workings of the IFPI reciprocal agreements. PPL sends these collective management organisations that part of the fees that relates to use of sound recordings in their territories, for distribution in accordance with the distribution policy of that collective management organisation. Some PPL and VPL licences cover countries outside of the UK on the basis of specific international grants of rights from PPL and VPL members. Distribution of revenue arising from licensing of rights outside of the UK will follow the principles of the relevant Rules where possible, but in some cases practice may vary due to different local laws and the challenges of managing data relating to the ownership of rights in multiple territories. In all cases the allocation and distribution of revenue continues to be under the oversight of representative committees of members.

## **Overview of the Distribution Rules**

### **PPL UK Distribution Rules**

The PPL UK Distribution Rules are organised into sixteen rules and five schedules. Rules One to Five and Rule Sixteen provide important information to help understand and interpret other rules or set out criteria used to determine whether a sound recording or a performance qualifies to receive allocations. Rules Six to Fifteen set out the process that PPL follows to allocate or pay out revenues. The sixteen rules and schedules are as follows:

**Rule One - Aims:** This Rule sets out the overarching purpose of the rules and the guiding principles which should be considered when interpreting all of the other rules.

**Rule Two - List of Definitions:** The Distribution Rules are precise and detailed. To help ensure accuracy and consistency some terms used throughout the Rules are given particular definitions. For example this Rule explains what we mean when we use the terms "Record Company", "Performer", "Fund" and "Profile".

**Rule Three and Schedule One - Qualification of Sound Recordings:** PPL is only able to license the use of tracks that are protected by copyright and where that copyright is controlled by PPL. Rule Three and the accompanying Schedule One set out the criteria that PPL applies in more detail.

**Rule Four and Schedules Two and Three - Qualifying performances:** There are legal rules that determine whether a particular performance qualifies for the right to equitable remuneration (which is the legal term for the money that PPL pays to Performers). This Rule sets out the criteria that PPL applies. Schedule Two sets out the criteria to determine whether a person's contribution is such that they should be considered a Performer in relation to a particular track. Schedule Three sets out the criteria to determine whether the performance qualifies for equitable remuneration.

**Rule Five - The distribution scheme (Overview):** Building on the general principles set out in the first four rules, Rule Five summarises the distribution process that PPL follows. More detail on each stage is set out in each Rule that follows.

**Rule Six - Costs allocation:** This Rule sets out how PPL apportions costs between different revenue streams according to how much time, effort and cost has been expended in collecting, processing and paying out that revenue.

**Rule Seven – Funds:** PPL tries to ensure, as far as reasonably possible, that money paid by a licensee goes to those members that own or contributed to the recordings played by that licensee. Clearly not all PPL licensees play the same kind of music and PPL therefore splits up the licence revenue into Funds, each of which represents revenue received from a particular licensee or a group of similar licensees. This allows PPL to apply appropriate information about the kind of music played by those licensees to allocate the revenue to the right tracks. Rule Seven explains how we split up the revenue into these Funds.

**Rule Eight – Profiles:** Once PPL has established the appropriate Funds, PPL applies appropriate music usage information (a “Profile”) to that Fund. PPL matches the tracks contained in the music usage information against tracks contained in the PPL Repertoire Database. Revenue is allocated to tracks according to the amount of usage of each track contained in the relevant Profile. Rule Eight explains how we determine the appropriate Profiles.

**Rule Nine – Reserve Funds:** PPL has a discretion to set aside money into a reserve fund. This discretion may only be used when it is in accordance with the overarching purposes and aims of the rules. Rule Nine explains some safeguards that apply when PPL exercises this discretion. Any such reserve fund must be used for a specified purpose and shall be paid out in accordance with that purpose. If any reserve fund contains a surplus then finally this will be added back into revenue and distributed to members.

**Rule Ten - Division of Net Distributable Revenue between Record Companies and Performers:** This Rule explains how PPL revenue is divided between Record Companies and Performers.

**Rule Eleven and Schedule Four - Allocation of revenues between Record Companies:** Following the allocation of revenue to a particular track according to the earlier Rules, Rule Eleven and Schedule Four set out how the Record Company share of that revenue is allocated to the accounts of a particular Record Company or particular Record Companies.

**Rule Twelve and Schedule Five – Allocation of revenues between Performers:** Following the allocation of revenue to a particular track according to the earlier Rules, Rule Twelve and Schedule Five set out how the Performer share of that revenue is allocated to the accounts of a particular Performer or particular Performers. This includes details of the proportion allocated to featured and non-featured Performers.

**Rule Thirteen – Payments to Record Companies:** This Rule explains to whom PPL can pay out revenue allocated to a Record Company. It also explains when PPL may hold such monies.

**Rule Fourteen – Payments to Performers:** This Rule explains to whom PPL can pay out revenue allocated to a Performer. It also explains when PPL may hold such monies.

**Rule Fifteen – Adjustments:** Previous allocations of revenue to tracks, Record Companies and Performers, whether already paid out or not, can be adjusted because additional revenues are made available for distribution or as a result of new information. This information may, for example, concern the ownership of the rights in tracks or which Performers feature on a track and whether they are entitled to equitable remuneration. Rule Fifteen describes how these adjustments may be made.

**Rule Sixteen – Additional Provisions:** This Rule sets out some general provisions regarding the effect and interpretation of the Rules.

### VPL UK Distribution Rules

The VPL UK Distribution Rules are organised into twelve rules and two schedules. Rules One to Four and Rule Twelve provide important information to help understand and interpret other rules or set out criteria used to determine whether a music video qualifies to receive allocations. Rules Five to Eleven set out the process that VPL follows to allocate or pay out revenues. The twelve rules and schedules are as follows:

**Rule One - Aims:** This Rule sets out the overarching purpose of the rules and the guiding principles which should be considered when interpreting all of the other rules.

**Rule Two - List of Definitions:** The Distribution Rules are precise and detailed. To help ensure accuracy and consistency some terms used throughout the Rules are given particular definitions. For example this Rule explains what we mean when we use the terms “Music Video”, “Member”, “Fund” and “Profile”.

**Rule Three and Schedule One - Qualification of Music Videos:** VPL is only able to licence the use of music videos that are protected by copyright and where that copyright is controlled by VPL. Rule Three and the accompanying Schedule One set out the criteria that VPL applies in more detail.

**Rule Four - The distribution scheme (Overview):** Building on the general principles set out in the first four rules, Rule Four summarises the distribution process that VPL follows. More detail on each stage is set out in each Rule that follows.

**Rule Five - Costs allocation:** This Rule sets out how VPL apportions costs between different revenue streams according to how much time, effort and cost has been expended in collecting, processing and paying out that revenue.

**Rule Six – Funds:** VPL tries to ensure, as far as reasonably possible, that money paid by a licensee goes to those members that own or contributed to the music videos played by that licensee. Clearly not all VPL licensees play the same kind of music and VPL therefore splits up the licence revenue into Funds, each of which represents revenue received from a particular licensee or a group of similar licensees. This allows VPL to apply appropriate information about the kind of music videos played by those licensees to allocate the revenue to the right music videos. Rule Six explains how we split up the revenue into these Funds.

**Rule Seven – Profiles:** Once VPL has established the appropriate Funds, VPL applies appropriate music video usage information (a “Profile”) to that Fund. VPL matches the music videos contained in the music video usage information against music videos contained in the VPL Repertoire Database. Revenue is allocated to videos according to the amount of usage of each video contained in the relevant Profile. Rule Seven explains how we determine the appropriate Profiles.

**Rule Eight – Reserve Funds:** VPL has a discretion to set aside money into a reserve fund. This discretion may only be used when it is in accordance with the overarching purposes and aims of the rules. Rule Eight explains some safeguards that apply when VPL exercises this discretion. Any such reserve fund must be used for a specified purpose and shall be paid out in accordance with that purpose. If any reserve fund contains a surplus then finally this will be added back into revenue and distributed to members.

**Rule Nine and Schedule Two - Allocation of revenues between Members:** Following the allocation of revenue to a particular video according to the earlier Rules, Rule Nine and Schedule Two set out how the revenue is allocated to the accounts of a particular Member or particular Members.

**Rule Ten – Payments to Members:** This Rule explains to whom VPL can pay out revenue allocated to a Member. It also explains when VPL may hold such monies.

**Rule Eleven – Adjustments:** Previous allocations of revenue to videos and Members, whether already paid out or not, can be adjusted because additional revenues are made available for distribution or as a result of new information. This information may, for example, concern the ownership of the rights in music videos. Rule Eleven describes how these adjustments may be made.

**Rule Twelve – Additional Provisions:** This Rule sets out some general provisions regarding the effect and interpretation of the Rules.

## PPL International Distribution Rules

The PPL International Distribution Rules are organised into twelve rules. Rules One to Four and Rule Twelve provide important information to help understand and interpret other rules or set out criteria used to determine whether a sound recording or a performance qualifies to receive allocations. Rules Five to Eleven set out the process that PPL follows to allocate or pay out revenues. The twelve rules are as follows:

**Rule One - Aims:** This Rule sets out the overarching purpose of the rules and the guiding principles which should be considered when interpreting all of the other rules.

**Rule Two - List of Definitions:** The Distribution Rules are precise and detailed. To help ensure accuracy and consistency some terms used throughout the Rules are given particular definitions. For example this Rule explains what we mean when we use the terms “Record Company”, “Performer” and “Fund”. Defined terms are also used to describe the different types of allocation data that PPL may receive from collective management organisations, including Member Allocation Data, Band / Main Artist Allocation Data, Label Allocation Data and Sound Recording Allocation Data.

**Rule Three – Rights in Sound Recordings and Performances:** PPL claims and collects revenue from CMOs (Collective Management Organisations) on the basis of tracks or performances, in respect of which both:

- (1) rights exist in the country in which the revenue arises; and
- (2) PPL has been appointed to collect revenues.

Rule Three set out the criteria that PPL applies in more detail. In certain cases information regarding the subsistence of rights in the relevant country may not be available to PPL and Rule Three also sets out where PPL may make assumptions in this regard.

**Rule Four - The distribution scheme (Overview):** Building on the general principles set out in the first three rules, Rule Four summarises the distribution process that PPL follows. More detail on each stage is set out in each Rule that follows.

**Rule Five - Costs allocation and other deductions:** This Rule sets out how PPL apportions costs between different revenue streams according to how much time, effort and cost has been expended in collecting, processing and paying out that revenue.

**Rule Six – Allocations to Record Companies, Performers or Sound Recordings:** Much of the revenue received by PPL from CMOs has been allocated by that CMO to a particular Record Company or Performer. Where this is the case PPL will distribute the revenue through to the relevant Record Company or Performer after deduction of costs. However, on some occasions CMOs will not identify particular Record Companies or Performers to whom the revenue relates. Instead they may provide a range of different types of data, including data identifying the sound recording the revenue relates to, data identifying the name of the main band or artist, or data identifying the marketing label to which the revenue relates. In some cases PPL may be sent money by a CMO with no allocation data at all. Rule Six sets out how PPL will normally prioritise and utilise data in each of these different circumstances.

**Rule Seven – Allocation of Sound Recording level revenues between Record Companies:** The processing of data received by PPL from the relevant CMO may or may not involve the allocation of revenue to particular sound recordings. Where this is the case, and the revenue relates to the rights of Record Companies, Rule Seven set out that revenue is allocated to the accounts of a particular Record Company or particular Record Companies.

**Rule Eight – Allocation of Sound Recording level revenues between Performers:** The processing of data received by PPL from the relevant CMO may or may not involve the allocation of revenue to particular sound recordings. Where this is the case, and the revenue relates to the rights of Performers, Rule Eight set out how that revenue is allocated to the accounts of a particular Performer or particular Performers. This includes details of the proportion allocated to featured and non-featured Performers.

**Rule Nine – Payments to Record Companies:** This Rule explains to whom PPL can pay out revenue allocated to a Record Company. It also explains when PPL may hold such monies.

**Rule Ten – Payments to Performers:** This Rule explains to whom PPL can pay out revenue allocated to a Performer. It also explains when PPL may hold such monies.

**Rule Eleven – Adjustments:** Previous allocations of revenue to tracks, Record Companies and Performers, whether already paid out or not, can be adjusted because additional revenues are made available for distribution or as a result of new information. This information may, for example, concern the ownership of the rights in tracks or which Performers feature on a track and whether they are entitled to revenue. Adjustments to the amounts allocated to a Record Company or Performer may be made by PPL on the basis of new information or may be applied by PPL following a CMO determining the adjustment and informing PPL. Rule Eleven describes how these adjustments may be made.

**Rule Twelve – Additional Provisions:** This Rule sets out some general provisions regarding the effect and interpretation of the Rules.

## **Some other useful information about PPL's distribution practice**

This section of the guide provides some useful additional information that is not expressly set out in the Rules themselves. These practices are generally subject to PPL's or VPL's discretion as provided for in the Rules.

### **Distribution frequency and deadlines for registering repertoire**

Each PPL and VPL UK distribution usually applies to monies received in respect of a particular calendar year. The distribution is normally made in the June of the following year. For example, money received in respect of the period between 1 January 2014 and 31 December 2014 will be paid out in June 2015. Between the end of the relevant year and the distribution date PPL needs to match tens of millions of lines of usage data to members' recordings. In order for PPL to complete the process of matching members' recordings to usage in time for the distribution, recordings must be registered with PPL within a reasonable period of time prior to the distribution date. The same applies to the registration of music videos with VPL. PPL's and VPL's current policy is to accept new registrations no later than the 31<sup>st</sup> of January in order for them to be considered in respect of the preceding distribution year.

PPL distributes International revenue on a quarterly basis and as soon as possible after the revenue is received by PPL from the relevant CMO.

### **Types of recorded music that may not be included in PPL's rights or which PPL may not allocate revenue to**

In some situations PPL may not control the relevant rights, either to a track generally or in respect of certain uses of the track. Commonly in these situations the rights have been granted directly by the Record Company and payment has already been received. In such situations the track will not share in PPL's licence revenue.

There are some other situations where PPL may have been granted the relevant rights, but where the nature of how the track was produced and is controlled and used means that there is a possibility that PPL's distribution will be distorted so as not to reflect PPL's proper purpose of licensing recordings originally produced for sale and distribution to the general public.

*Library Music:* Library music (also known as "stock music" or "production music") is the name given to recorded music produced and owned by production music libraries and licensed to customers for use in film, television, radio and other media. Library music owners do not ordinarily register with PPL, so PPL does not control the rights to license this music. Even if the library music has been registered with PPL, if the use has been licensed directly from the owner to the music user then the use of the music will not fall under the PPL licence and the track will not share in PPL licence revenue. This music is often licensed via MCPS and the value of the use of this type of music has not been reflected in PPL's licences with broadcasters.

*Theme Tunes:* If the recording used as the theme tune is owned by a PPL member and if the broadcaster is a PPL licensee, this usage will generally be covered by PPL's licensing. However, in some situations, the PPL member may refuse permission for the recording to be used as a theme tune in which case it would not be covered and the track would not share in PPL licence revenue.

*Other Buyouts:* In some cases the record company may have granted all rights directly. This may for example be the case if a track has been licensed for use in a US television programme or feature film. As the rights have already been granted they cannot fall within PPL's control and therefore the track does not share in PPL licence revenue.

*Specially Commissioned Music:* Recordings that have been created on the instruction of the broadcaster or other licensee for use in their services will not normally share in PPL licence revenue. The permission to use the recording is normally an explicit or implied part of the commission. Even where this is not the case PPL will normally exercise its discretion to exclude this kind of music from distribution. PPL's licences with broadcasters are agreed or set on the basis of the value of the use of music originally produced for sale and distribution to the general public (i.e. commercially available recordings). Inclusion of other types of recordings in the distribution artificially dilutes the appropriate value apportioned to the commercially available recordings.

## **Samples**

If a Performer qualified for payment on the sampled recording, then they will qualify for payment for the use of the sampled recording in the new sound recording. Once use of the sample is established, all Performers on the sampled recording (irrespective of which part of the sampled recording has been used) are added to the Performer line-up on the new sound recording as non-featured Performers unless information is available to show that their performance is not included on the new recording. As such, they are entitled to each receive a non-featured allocation share.

PPL will add the Record Company share of money allocated to a track to the account of the Record Company that is listed as the owner of the track on the PPL Repertoire Database. Unless notified otherwise it is the responsibility of the owner of the copyright in the track to pay any sums due to the owner of the copyright in any sample that is part of the track.

## **Licences that cover a range of services**

Some licensees pay PPL or VPL a fee that covers a range of services, each of which may use different types of music or use music in a different way. For example, PPL licenses music use in television on the basis of a single negotiated fee for each broadcaster (e.g. BBC, ITV, Sky) to cover a period such as three or four years. In this case the revenue is split between each licensed channel according to the amount of music used on each channel and the audience for that channel. During licence renegotiations the amount of usage and audience over the previous period is used to determine the new rate for the next licensing period, which typically occurs on a three to four yearly basis

## **What if PPL haven't identified use of music that took place?**

If a PPL or VPL member believes that their track or music video was played by a licensee that does provide usage information to PPL or VPL but it appears that no allocation has been made to the track or music video, the member can request a missing usage investigation. To find out more about this process please see the further information on our website at <http://www.ppluk.com/membership/more-information/member-statements/>

### **When might PPL or VPL establish a Reserve Fund?**

Reserve Funds are not the same as money that has been allocated to a track in PPL's repertoire (or a music video in VPL's repertoire) but which we are unable to pay out due to, for example uncertainty over the owner of the track. Reserve Funds are rare. One example of a Reserve Fund consists of money paid to PPL by a small number of Internet radio services that pay on a "pay per play" basis. Money may be paid to PPL in respect of tracks where PPL is not sure of the owner but that are likely to be in PPL's repertoire. PPL may retain this money while it tries to ascertain whether the relevant tracks are owned by a PPL member. If PPL cannot establish that the tracks are owned by PPL members then the money may be returned to the licensee.

### **Payments in respect of deceased Performers**

In respect of deceased Performers PPL shall pay out monies to the person who holds the grant of representation and their assignees. Where the amount of money due to be paid out to the representative of a Performer is less than £10,000 PPL will in appropriate cases consider alternative documentation proving that the representative is validly appointed.

### **Non-mandated international monies**

While PPL will only claim revenue from CMOs in respect of recordings or performances in respect of which the owner of the relevant right has granted PPL a collection mandate, sometimes CMOs will send money to PPL that is connected to other recordings or performances. For example, a CMO may be unable to break down revenue between the performances of different members of the same band, and pay PPL all monies for a band, even though only some members of that band may be represented by PPL.

PPL's handling of this money falls outside the direct scope of the Rules. PPL will do what it can, working within legal constraints that apply, to get the revenue to the relevant record company or performer to whom it relates, but sometimes it is necessary to send the money back to the CMO that sent it to PPL.