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Financialization of music: song management firms and fractionalized copyright

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ABSTRACT

This paper examines the growing interest of financial markets in investing in music rights, arguing that this is a manifestation of the financialization of music. While music rights have been traded for a long time, the vast majority of these transactions have been between entities within the music industry. However, in recent years, we have observed the entrance of pension funds, banks, and private equity firms into the music rights market. This study explores the causes and consequences of the emergence of new players in the music rights market, particularly entities such as song management firms and fractionalized copyright trading marketplaces. Through the examples of Hipgnosis and ANote Music, the paper illustrates the operations of such entities and considers the potential consequences of their activities for artists and culture.

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Intellectual property; music publishing; music royalties; fractionalized copyright; Hipgnosis

1. Introduction

In late 2020, media outlets reported that the Universal Music Publishing Group (UMPG) had acquired Bob Dylan's entire song catalog for reportedly more than $300 million. While the amount paid might have surprised music fans, the name of the buyer was not unexpected. UMPG has been an active player in the music publishing market for several decades (albeit under different names) and today is one of the largest music publishers, with approximately 23% of the global market share (Music and Copyright, 2021).

Soon after, it was announced that Hipgnosis Songs Fund Limited (hereafter: HSF[1]) acquired 50% of Neil Young's song catalog for a sum between $150 million and $180 million. While music industry analysts were already familiar with the buyer (HSF had been investing heavily in music catalogs since 2018), the average listener was likely to be unaware of them. The emergence of new players in the music rights market is a relatively new phenomenon, reflecting the changing realities in which artists and music industries operate since platform-based music streaming became the dominant form of music consumption in the Global North (Meier & Manzerolle, 2019).

Taking this into account, the goal of this paper is twofold. First, to understand and analyze the processes that can be called the financialization of music, following Epstein's

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(2005) and Lapavitsas (2011) conceptualization of financialization. Second, to examine two levels on which the processes of financialization of music are taking place: (a) through large capital investments made by financial investors to acquire music catalogs, and (b) through enabling small-scale individual investors to purchase shares in music royalty streams. The aim of this paper will be achieved through a comprehensive analysis of the relevant literature and the examination of two case studies, which will provide valuable insights into the topic.

The centrality of copyright in the music industry has been highlighted in the literature since the 1980s (Frith, 1988). Viewing the music industries from the perspective of their focus on intellectual property helps us comprehend the consolidation processes that major record labels have undergone over the past four decades as well as their interest in acquiring stakes in music publishing companies (Hesmondhalgh, 2018).

While a few financial investors did acquire shares in music publishers during the 1980s and 1990s, the majority of investors came from within the music industry, which itself, for the most part, was controlled by the consumer electronics sector in the twentieth century (Hesmondhalgh & Meier, 2018). However, early signs of growing interest in music assets from the financial markets emerged in the first decade of the twenty-first century, with investors, including pension funds, banks, and private equity firms purchasing music publishers and catalogs (Davies et al., 2022). Companies such as Primary Wave, Kobalt Capital, Spirit Music Group, and Round Hill Music entered the music rights market, making substantial investments in high-profile catalogs of artists such as Nirvana and John Lennon (Davies et al., 2022). Between 2010 and 2017, 'at least $2.6 billion was raised to help purchase catalogs', which 'represented over ten times the amount of reported money raised from 2000 to 2009' (Davies et al., 2022, n.p.). These numbers further multiplied after HSF was founded in 2018.

The structure of the paper is as follows. The next section reviews the literature on financialization. Section three discusses how music rights become a source of revenue. Sections four and five analyze the cases of commercial exploitation of music rights by non-music entities, discussing music IP investment companies (such as Hipgnosis), and blockchain-based start-ups engaging in what has been termed 'fractionalized copyright'. The final section provides the discussion of causes and consequences of financialization of music.

2. The political economy of financialization

Financialization is a term commonly used, often critically, to describe the changes taking place in contemporary capitalism, along with concepts like neoliberalism and globalization. It refers to the process where the financial sector of the economy expands relative to the real economy, and profits are primarily generated through financial channels rather than through trade and commodity production (Epstein, 2005; Krippner, 2005; Sawyer, 2013). Many phenomena and processes in the modern economy are considered manifestations of financialization:

(1) The increasing globalization of financial markets and the rising transaction volumes have outpaced corresponding growth in commodity flows, leading to the greater influence of financial institutions and their revenue in the economy.

(2) The significant increase in the volume of financial assets and the emergence of new financial instruments.
(3) The increasing use of leverage in business.
(4) Changes in the ownership structure of companies, with a greater role for owners from the financial sector who often represent 'impatient' capital, prioritize short-term rather than long-term returns on capital.
(5) The shift from stakeholder value to shareholder value.
(6) The shift away from the 'Fordist system' towards neo-liberal rules, treating human labor primarily as one of the inputs to be minimized in order to maximize profit.
(7) The growing share of financial assets in household assets, particularly in highly developed countries, leading to rentier attitudes and increased household indebtedness.
(8) The increasing influence of financial markets and elites on economic policy and outcomes, as well as the links between politics and the financial world.
(9) An escalation of the frequency and severity of financial crises.

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Critiques of financialization are primarily put forward by heterodox economists, particularly from the perspective of post-Keynesian economics (Bhaduri, 2011; Epstein, 2005; Lavoie, 2012) and critical political economy (Harvey, 2006; Isaacs, 2011; Lapavitsas, 2011; Magdoff & Sweezy, 1987). Post-Keynesian economists criticize the shift away from the economic policies that prevailed in capitalist countries for the three decades after the Second World War. The Fordist regime of accumulation ensured that until approximately the 1970s, real wages kept pace with or even exceeded labor productivity, while corporations maintained high profit rates through high-capacity utilization and low interest rates. However, this changed with the negative oil and commodity shocks of the 1970s, which led to temporary decline in productivity and lower corporate profit rates. Profits began to dwindle even further as interest rates rose following the monetarist recommendations. Neoliberal policies and financialization replaced Keynesian policies, ushering in a new regime of accumulation that favored an economy based on weakened trade unions, low real wages, high real interest rates, and increased capital gains.

Consequently, financialization resulted in a transformation from an economic system in which growth relied on high real wages and significant firm investment in the real economy to a system based on high spending by households that sustain their consumption through private debt (Lavoie, 2012). At the micro level, financialization has led to fundamental changes where corporate actions are driven by shareholder interests. As a result, the capital prefers actions that yield quick short-term returns, favored by shareholders, rather than long-term investments, which tend to be more favorable for employees and management. (i.e., dividend payments and share buybacks rather than financing long-term investment projects) (Dallery & Van Treeck, 2011). Financialization implies the emergence of a new institutional environment with the economy becoming more oriented towards finance rather than real production (Sotiropoulos & Hillig, 2020). The shift away from Keynesian compromise has meant that the economy can increasingly be described as a capitalist economy with expensive capital assets and a complex, sophisticated financial system. In such an economy, as argued by Minsky (2008), financial crises become endemic.

In contrast, economists in the Marxian tradition believe that the development of finance since the 1970s is closely linked to the issue of capital accumulation in a capitalist economy, and they view financialization as another stage in the evolution of this system. Even prior to the dynamic expansion of finance observed today, Baran and Sweezy (1968) argued that in a monopolistic capitalist economy, a small group of monopolists or oligopolists owned and benefited from a highly productive system that generated huge surpluses. However, due to barriers arising from the conditions that produced these surpluses, profitable investment opportunities were limited. Consequently, the excess buildup of productive capacity signaled a lack of room for investment in new capacity. Capital owners faced the dilemma of what to do with their immense surpluses due to a scarcity of investment opportunities. Since the 1970s, they have expanded their demand for financial products, and financial institutions have responded by creating new financial instruments, leading to a surge in financial speculation that has persisted for decades (Foster, 2007; Magdoff & Sweezy, 1987).

Financialization, therefore, addresses the problem of insufficient demand by transferring the excess consumption power from capitalists to workers in the form of debt. This resolves the problem of surplus capital without threatening the interests of capitalists at the expense of households (Sotiropoulos & Hillig, 2020). Marxists highlight the fragility of the entire system and the increased risk of speculative bubbles (Bakir, 2015). As Foster (2007) argues, monopoly capitalism has given way to monopoly-finance capitalism.

Financialization has had a significant impact on the cultural industries, with the production of film and television, print, literature, art, and music increasingly influenced by the logic of how the financial world works (Haiven, 2014, 2020; Vishmidt, 2014). Corporate development within cultural industries has progressed in parallel with the development of capitalism discussed above. Cultural production and distribution are now globalized and largely controlled by multinational corporations. Furthermore, financial corporations have come to dominate film and music production itself (Fitzgerald, 2012), with many of these entities having ties to high-tech companies, such as Apple, Alphabet, Amazon, Netflix, and Spotify (Hesmondhalgh & Meier, 2018). For instance, the US film and television industry has witnessed significant financialization over the past two decades (deWaard, 2020), as media giants embrace the process of achieving greater investment opportunities and profit extraction. This has led to the domination of film and television production and distribution by large conglomerates.

Many researchers use the fine art market as an example to understand the impact of financialization on cultural industries (deWaard et al., 2022; Haiven, 2020; Ivanova, 2016; Taylor, 2011; Velthuis & Coslor, 2012; Vishmidt, 2014). Though relatively small, this market provides valuable insights into the processes affecting the sphere of cultural production, including the music market. Financialization has transformed art into a speculative asset (Haiven, 2018, 2020; Taylor, 2011). Historically, the arts served as an alternative investment for the wealthy, but this phenomenon has intensified in recent years with a significant rise in the world's richest individuals. Since the 1990s, there has been a marked increase in the prices of art, prompting both art dealers and artists to cater to the whims of the wealthiest. As a result, some renowned artists have established corporations where their assistants create artwork signed with the artists' names (Taylor, 2011).

According to Taylor (2011), financialization profoundly alters the relationship between art and money. The art market has evolved to resemble financial markets, where the real economy is replaced, and financial instruments create an increasingly autonomous sphere focused on continuous wealth multiplication. Art has gradually transitioned into an abstract game of non-referential signs, no longer viewed solely as a commodity for buying and selling, but rather as an exchange currency created for hedge funds and private equity funds, traded like any other financial asset. Consequently, art is no longer valued primarily for its aesthetic or cultural significance, but rather for its potential to generate financial returns.

The impact of financialization on artists is complex and multifaceted. On the one hand, it has provided new opportunities for artists to monetize their work and reach a broader audience through the art market. However, there are concerns that financialization may pressure artists to create works primarily for marketability rather than focusing on meaningful expression, leading to a growing homogenization and commercialization of the art world (Taylor, 2011; Velthuis & Coslor, 2012). Additionally, financialization has led to the concentration of power and wealth in the hands of a small number of collectors and investors, making it more challenging for emerging artists to establish themselves in the art world. Moreover, the intertwining of art and finance due to financialization blurs the boundaries between the two domains, sparking debate about the role of art in society and its relationship with capitalism. These questions about the commodification of culture and its impact on artistic expression raise profound concerns about the future of the arts. As we will explore in the next sections, some of these issues may also apply to the music industry, further underscoring the broader implications of financialization on cultural production.

3. Music rights as an asset

An analysis of the processes of the financialization of music requires understanding the aspects of copyright that make music rights an attractive asset in financial markets. Copyright is understood as a 'bundle of rights', meaning that the owner of the copyright enjoys various 'rights' that can be sold or licensed, in some cases independently (Marshall & Frith, 2013; Towse, 2008). While the exact language in which legislators frame copyright protection differs across countries, in the case of music, the 'bundle' typically centers around the right to reproduce (make copies of) the work, create derivative works based on the original, publicly perform the work (also by means of a digital audio transmission), and distribute copies of the work (Passman, 2019; WIPO, 2016). The differences in the formulation of these rights in different legislations stem not only from the particular legal traditions but also from the ways in which legislators choose to accommodate the country's copyright law to challenges brought about by technological progress.

To understand how music can be viewed as an asset and an object of market transactions, it is essential to distinguish between song catalogs (song rights) and sound recording catalogs (master rights). Song catalogs, which are assets controlled by music publishers and/or songwriters, consist of musical compositions (including lyrics in the case of vocal songs). In most jurisdictions, these compositions are protected for 70 years after the death of the author. Copyright in sound recordings, on the other hand, typically protects the specific recording of the musical work, encompassing the performance of the musicians, the production and engineering of the recording, and other aspects of the recording process. Which entity controls them depends on circumstances usually governed by a recording contract, with a record label, recording artist, and producer being the most common owners or co-owners of such works. The duration of protection of sound recording varies in different jurisdictions. For instance, while in the EU sound recordings are legally protected for a period of 70 years from the end of the year in which the recording was first released or made available to the public, in the US they are protected for a period of 95 years from the date of first publication or 120 years from the date of creation, whichever is shorter (Passman, 2019). It is important to emphasize that music composition is considered the primary creative act, meaning that sound recordings usually capture the performance of a particular, pre-existing music composition. Consequently, although sound recordings are separate assets, they also generate income for the owners of copyrighted compositions on which they are based.

The discussion of the differences between song catalogs and sound recording catalogs conducted in this section is intentionally brief (see, e.g., Passman, 2019), as the primary focus of this paper is to identify the most valuable revenue streams generated by both types of catalogs. These revenue streams include:

- Mechanical royalties – paid to owners of song rights (copyright in musical composition and lyrics) whenever the song is reproduced and a sound carrier containing it (e.g., on a CD or vinyl) is sold, or streamed on legitimate platforms.[2]
- Public performance royalties – paid to owners of song rights whenever a song is performed publicly, for example, on the radio, television, at live concerts, bars, etc. Sound recording catalogs (master rights) also generate public performance royalties; however, in the US, they are paid only for digital uses (i.e., terrestrial radio broadcasts in the US do not generate royalties for owners of master rights).
- Synchronization royalties – these royalties are generated whenever music is synchronized with visual images such as in movies, video games, television programs, and commercials. They are paid to both owners of master rights and song rights if a buyer wants to use a particular recording, or only to owners of song rights if a song is covered by another artist in a movie or commercial for cost reduction purposes. Unlike mechanical and performance royalties, there are no statutory rates set by collecting societies or legislators for synchronization royalties, making synch deals subject to direct negotiation with copyright owners. This gives copyright owners veto power and the potential for lucrative deals from their perspective.
- Other sources, including print music royalties (for reprinting lyrics in a book or magazine or as sheet music containing musical scores), sampling, and private copying levies (fees imposed on blank media devices or storage media that can be used for copying copyrighted content) (Marshall & Frith, 2013; Passman, 2019; WIPO, 2016).

As mentioned in the introduction, music rights have historically been primarily considered an asset of interest within the music industry. The first example of a financial instrument created based on music rights was the issuance of Bowie Bonds in 1997. These bonds were an example of securitization: the creation of a financial instrument based on an underlying asset, in this case, the future royalties generated by David

Bowie's recording catalog (Kerr, 2000). The Bowie Bonds, valued at $55 million, were sold to institutional investors. The bonds were redeemed by David Bowie in 2007, which meant that he regained full control of the pledged asset. The whole transaction was possible because Bowie owned his catalog of recordings, which was not common at the time (Chen, 2000). Although there were a few more similar transactions in the following years, such bonds did not become a massively used financial instrument due to their complexity and the crisis faced by the music market in the first decade of the twenty-first century.

4. The emergence of music investments funds: Hipgnosis

Hipgnosis Songs Fund, founded by music industry veteran Merck Mercuriadis, officially launched in 2018. HSF rapidly gained prominence by acquiring significant music catalogs in a relatively short time from a diverse range of artists, songwriters, and producers. By the end of 2022, it managed a portfolio of 146 catalogs containing 65,413 songs, with an estimated value of $2.67 billion (Hipgnosis, 2022b). As mentioned in the introduction, HSF is not the first company backed by capital firms to enter the market for acquiring song rights. However, it was chosen for this case study due to its aggressive approach of purchasing large numbers of catalogs within a short period of time. The case of HSF, particularly when compared to traditional music publishers, exemplifies the main argument of this paper that music is increasingly subject to processes of financialization.

Music publishers have been active in the music market even before the advent of recording technology, first specializing in the trade of sheet music (Towse, 2017). As the music market evolved in the twentieth century, publishing became one of three core subindustries within the broader music industries, alongside the recording and live music sectors. In essence, music publishers' role is to manage song rights to maximize revenues, which are divided into two parts: the 'publisher's share' and the 'writer's share'. The size of these shares varies by country, for example, while the split is usually divided equally in the US, the writer can receive a larger share in the UK: '[t]he minimum is generally upwards of 60% of the copyright, i.e., 100% of the writer's share and 20% of the publisher's share.' (Gammons, 2011, p. 96). This division of revenues, in theory, guarantees alignment of publisher's and songwriter's interests.

In some respects, HSF resembles a music publisher, particularly in its active involvement in publishing activities such as song promotion and seeking licensing opportunities.[3] Both music publishers and HSF generate revenue by finding new uses for the works they manage and streamlining the process of collecting royalties from multiple entities.[4] However, there are a few differences that suggest HSF operates as a different type of entity compared to a traditional music publisher.

The first main difference between HSF and the majority of traditional music publishers[5] lies in how a company entered the market. A traditional music publisher grows organically by signing deals with new songwriters. Consequently, such a publisher, more often than not, manages a portfolio of catalogs at various stages of their lifecycles, ranging from unknown works to established hits. Such a portfolio is a consequence of being active in the songwriting market over an extended period of time: as a publisher grows, it signs new songwriters with potential who may eventually reach superstar status after years of development. Some music publishers, especially the major ones, may also acquire whole catalogs or smaller publishing companies. Nevertheless, even the biggest publishers who are active buyers in the market for song rights very rarely invest so aggressively as HSF.

Second, HSF concentrates almost exclusively on catalogs with proven commercial success and, as a result, manages a relatively small catalog compared to its revenues. By the end of 2022, it had a portfolio of 146 catalogs containing 65,413 songs. For comparison, one of the major publishing companies, Warner Chappell Music, represented 'works by over 100,000 songwriters and composers, with a global collection of more than one million musical compositions' in 2020 (Warner Music Group, 2022, p. 4). Interestingly, during the 2022 fiscal year, Warner Chappell Music generated $958 million in revenues (Warner Music Group, 2022, p. 94), while HSF's gross revenue in 2021 equaled $91.7 million. This indicates that the relatively small catalog managed by HSF brings in more revenue per song than that of the major publishers.

Third, HSF deviates from the industry standard of managing part of publishing rights (called 'publisher's share') and, whenever possible, aims to buy the 'writer's share' as well, effectively controlling 100% of rights. Additionally, HSF invests also in master rights, entering into the domain of record labels. While this approach is logical from an economic perspective, publishers usually do not pursue such practices (however, record labels are increasingly operating in-house publishing divisions).

Fourth, a traditional music publisher often, although not always, enters into a long-term relationship with songwriters, encompassing works that are not yet written. In other words, a music publisher is open to developing the talents of emerging songwriters. In contrast, Hipgnosis primarily acts as a financial vehicle that monetizes the future cash flows of acquired star catalogs. The company's core business is the exploitation of the potential of music royalties as an asset class rather than working with songwriters to increase the value of existing works and create new music that could be commercially exploited in the future. HSF management has emphasized on many occasions that they do not see themselves as a music publisher: 'I refuse for our company to be called the publishing company – we are a song management company' (Mercuriadis cited in Brancaccio & Conlon, 2022, n.p.). While entities belonging to Hipgnosis group perform many tasks typical of music publishers (e.g., licensing works, seeking new fields for work exploitation, and improving royalty collection), their approach to business, both in terms of declarations and actual actions, differs from that of most traditional music publishers.

The distinctiveness of HSF is well captured in a report directed at shareholders, where it states that '[w]ith proven Songs firmly established as an asset class, no investment portfolio is truly complete without at least some exposure to the predictable, reliable and uncorrelated revenues they generate.' (Hipgnosis, 2022a, p. 3). The company's goal, here and elsewhere declared as *establishing music rights as an asset class*, indicates a move towards financialization. While investors are not offered direct investments in a royalty stream (as possible with other types of companies, see section 5), they can buy shares of the company that owns music rights. From a financial perspective, this is equivalent to investing in a mutual fund, with the difference being assets – music rights instead of stocks or bonds. The highlighted sentence also emphasizes the main declared benefit of its offering: 'the predictable, reliable and uncorrelated revenues' (Hipgnosis, 2022a, p. 3). The predictability and reliability of the revenues results from HSF's strategy of only investing in commercially successful catalogs. When the company's founder said, 'we only buy extraordinarily successful songs and what I consider to be songs of cultural importance' (The Music Week, 2021, n.p.), he meant that only such catalogs bring stable income over a long period of time. Additionally, the claim (by HSF) that such investments are 'uncorrelated' means that music rights generate income regardless of the macroeconomic situation.[6] This allows HSF to present itself as an attractive alternative to other financial instruments.

However, there are downsides to HSF's approach. The company uses debt and some form of leverage to fund its acquisitions. Music publishers, with very few exceptions, do not go public and have less need to engage with the financial sector as deeply as HSF. Although HSF claims it offers its investors 'uncorrelated' revenues, it is not immune to changes in the macroeconomic situation. For example, an increase in interest rates has a twofold effect on HSF. On the one hand, it increases the interest it must pay on capital, which, given that some purchases are made on credit, affects its profitability. On the other hand, rising interest rates may make HSF's assets less attractive to investors, who may prefer safer forms of savings. If investors believe that HSF paid more for the catalogs it bought than they are actually worth, then the company's valuation will fall[7], making it harder for it to obtain the new capital needed to buy more catalogs.

5. Experiments with fractionalized copyright: ANote Music

ANote Music is a marketplace specializing in the trade of music royalty interests, one of a few similar entities that have emerged in recent years. In essence, these entities allow individuals from outside of the music industry to buy a share of future royalties generated by a particular composition, recording, or catalog. While the concept behind this is similar to Bowie Bonds, where investors received a share in issuer's revenues, the execution differs. The key concept necessary to understand the operation of ANote Music and similar entities is 'fractionalized copyright'. This refers to the practice of dividing ownership of a stream of future royalties into smaller pieces that can be traded on internet marketplaces, similar to shares on the stock exchange. The division of royalties is facilitated through the employment of blockchain technology, which not only makes it easy for the marketplace to monitor transactions but also provides investors with a degree of safety.

To understand what ANote Music does and how it can impact the music market, it is crucial to examine the steps it takes to make a catalog of songs or recordings available to investors. First, Anote Music must find a catalog owner (called a 'transferor') who is willing to participate in the transaction. This could be a songwriter, a producer who controls their copyrights, or a company, such as a publishing company (in the case of song rights) or a label (in the case of master rights). The transferors must be motivated to sign the deal, meaning they must value being paid the value of the transaction upfront, rather than being paid over several years in the form of due royalties. The ownership of the rights subject to the transaction should not be limited, but it is not necessary for the holder of the rights to be the sole holder. A good example is provided by an agreement between SJ Beats LLC and ANote Music, which involved 50% of 'Producer Royalties from Master Rights exploitation' (ANote Music, 2023b, p. 2) for five tracks by various artists (including Backstreet Boys and Justin Bieber). The remaining 50% of producer royalties remained in the hands of the original owners, and other tracks controlled by SJ Beats LLC were not subject to any transactions. Therefore, what becomes tradeable on ANote is a portion of the original owner's assets.

Second, an agreement is signed between ANote Music and the transferor in which the catalog owner agrees to transfer royalty interests to third parties, specifying a minimum price below which the transaction will not take place. In the case of the agreement between SJ Beats LLC and ANote Music, the agreement is worded in the following way:

> We are listing, at the Minimum Price set out below, a Percentage of our Royalty Interests on the ANote Platform. If the auction is successful, our Royalty Interest will be transferred to Counter-Parties, entitling them to receive the relevant percentage of our Catalogue's Royalty Payments ('Relevant Royalty Payments'), for an agreed period of time (the 'Listing Term'). We will ensure that, for the whole Listing Term, Counter-Parties receive their Royalty Payments. (ANote Music, 2023b, pp. 1–2).

What is particularly important here is that the ownership of rights does not change (SJ Beats LLC remains the owner), yet it is stripped from 50% of its future revenues, which will be transferred to the investors who bought shares.

Third, an auction is organized in which the price is decided and 'shares' are allocated to investors. Investors who consider buying shares are offered basic information about the catalog's performance, the structure of royalty payments, and the successes of tracks included in the catalog. In the analyzed case, the key piece of information looks as follows:

> The catalogue, listed for the entire Life of Rights, generated royalties averaging yearly €29,648 in the last 3 years (2019-2022), €28,556 the last 12 months (2021-2022). With a total catalogue valuation of €280,000 the listing is set at an entry multiple of 9.44x over the last 36 months' average yearly royalties, resulting in an observed yield (yearly IRR, employing constant 3-year average royalties) of 10.59%. (ANote Music, 2023a, p. 1).

This means that assuming the catalog will generate similar revenues as it did in the past, one should wait about ten years for a return on the invested capital. Eventually, during the auction, all the shares were sold and the price was set at €14 EUR (generating €140,000 for the transferor), which was the minimum price for which the shares were offered. Such values make the offer attractive only to small investors – large ones would require hundreds of times larger capitalization.

Fourth, once the shares are allocated to the investors, trade on the secondary market begins. This process is organized according to the same principles as trade on stock markets with regard to setting the price. At the time of writing, secondary market transactions take place only occasionally. Considering the short history of the company, such low liquidity in the market is not surprising, yet it is a significant obstacle for any individual wishing to invest larger funds. However, those who bought shares may be motivated not only by their price increase but also by a stable stream of royalties generated by the catalog. Such investors are regularly (e.g., quarterly) paid royalties generated by the rights that were included in the catalog.

While the trade in fractionalized copyright is still in its infancy, there are reasons to believe it will develop rapidly in the coming years. This can be illustrated with two examples. First, the entrance of start-ups with significant financial assets into this business, such as JKBX, which is managed by people with significant music industry experience. Combined with access to capital, this helps the company secure access to what ANote Music seems to be lacking at this point: rights to numerous superstar catalogs. At the time of writing, JKBX has not yet officially launched, but it is estimated that it 'currently has over $1.7 billion in music rights exclusively secured and anticipates launching by the end of 2023 with over $4 billion of rights' (Dredge, 2023, n.p.). Such values can be a game-changer in the industry.

Furthermore, established artists have started selling shares in future royalty streams to their tracks. One example is TLC, who, at the time of writing, are selling shares on the Songvest platform in the three songs they are going to re-record in the near future (Songvest, 2023). The deal proposed by the band is slightly different from what investors can buy at ANote Music because it covers tracks that have not yet been recorded and, therefore, it is reminiscent of crowdfunding (Brzozowska & Galuszka, 2021). Nevertheless, the technical side of Songvest, based on blockchain and the concept of 'investing' in songs, positions this service next to ANote Music.

6. Discussion

The emergence of companies like HSF and ANote Music can be seen as the next step in the years-long process of increasing the importance of intellectual property rights in the music industry. However, at the same time, the establishment of these rights as an attractive asset class for investors outside the music industry represents a qualitative change with potentially far-reaching consequences. In this section, we will discuss the causes and consequences of the processes taking place.

The first question to address when analyzing the causes is, 'why now?' The first (successful) attempts to create sophisticated financial instruments based on copyright took place in 1997 with the sale of Bowie Bonds. So the idea is not entirely new, although it should be noted that Bowie Bond was directed at a small group of institutional investors and these bonds were never intended to be a mass offering. Despite the success of this instrument, shortly after the sale of Bowie Bonds, the music industry plunged into a crisis that lasted more than a decade, which was not conducive to investor interest.

The success of streaming services, however, showed the potential of copyright as an asset. The key factor was not only that streaming generates revenue but also that it generates steady and predictable revenue over a long period of time, with detailed data proving the profitability of catalogs. Unlike tangible sound carriers such as CDs or vinyl, streaming services do monetize consumption rather than transactions (e.g., buying a record). This means that for popular catalogs, the revenue remains repetitive and consistent over an extended period. Potentially even more important is that owing to streaming platforms, investors can observe the data showing steady, regular revenue generated by the most valuable catalogs. The availability of such data and evidence of steady revenue from streaming platforms is fundamental to earning the trust of the financial markets. An additional factor playing a role in the emergence of sites specializing in fractionalized copyright trading (ANote Music and JKBX in our analysis) is the proliferation of blockchain technology, which greatly facilitates the recording and monitoring of transactions.

It is also interesting to answer the question of why songwriters decide to sell catalogs not only to companies like HSF but also to traditional major publishers or any entity that pays upfront cash for the rights. For some of the older sellers, the main motivation appears to be estate planning: cash is easier to bequeath than copyrights. In addition, the fact that a catalog seller is getting cash on hand today instead of receiving royalties for decades to come may be important for artists regardless of their age. This motivation also plays a role in owners selling rights to future royalties on fractionalized copyright trading marketplaces like ANote. While the seller deprives themselves of an asset that generates significant revenue, they receive cash in return, which they can invest in assets that they believe can yield a higher rate of return. Tax issues can also play an important role in some countries:

> If you take royalty cheques on a regular basis, most governments look at that as salary income, which can be taxed at a rate as high as 50 per cent. If the artist takes future royalties up front in a lump sum, that's considered capital gains and the tax rate drops to about 20 per cent. If you're talking about a deal with tens of millions or even hundreds of millions of dollars, that's a big difference. (Cross, 2023, n.p.)

All these factors help explain why we are currently observing an increased number of transactions in music rights. All of these investments are based on the belief that platform-based music streaming will remain the dominant form of music consumption in the future. While this text does not attempt to answer the question of whether this will be the case, it is important to remember that any investment in music assets is threatened by the emergence of a new technology subverting the established order of monetizing music consumption, as MP3 and P2P did at the turn of the century.

Assuming the financialization of music will proceed, we turn to the implications of the process, looking at it from the perspective of the political economy of intellectual property. In discussions of legislation extending the duration of copyright (e.g., the Copyright Term Extension Act in the U.S. in 1998), it has often been argued that pressure from big entertainment corporations to extend protection is a permanent feature of the adopted intellectual property model (Landes & Posner, 2003). Elkin-Koren and Salzberger (2012) pointed out how these extensions coincided with the paradigm shift in intellectual property law and economics. The goal of copyright law, previously perceived as providing incentives to create (incentives paradigm), has begun to focus on providing 'incentives to invest in existing resources' (proprietary paradigm; Elkin-Koren & Salzberger, 2012, p. 132). It is easy to imagine that the pressure to extend protection will be even greater when it is in the interest of not only the creative industries but also pension funds and millions of small-scale savers who decided to invest in their favorite songs.

Another political economy argument is that the increasing financialization of music perpetuates existing hierarchies in popular music and primarily benefits the big players. As shown by the example of HSF, for those financial investors who purchase entire catalogs, the rights to songs and recordings by the most popular artists are of the greatest value. This is logical given that such catalogs generate not only high but also stable revenues. Little-known artists are not an attractive asset for the financial markets because it is difficult to predict future revenues generated by their work. The result, however, is that the hierarchies that have been in place for a long time in popular music are reinforcing themselves. This means, for example, an extension of the dominance of canonical Anglo-American artists. Similarly, the consolidation of the publishing market, which is progressing as a result of the processes discussed above, can be criticized: the rights to attractive catalogs are in the hands of an increasingly narrower group of companies.

It can also be expected that the financialization of music will bring consequences, the assessment of which is not clear today. The most significant of these is the further development of more sophisticated rights-based financial instruments. From an economic perspective, the operation of music labels and publishing companies has long resembled that of venture capital funds. This is because they sign contracts with many promising artists, knowing that only a few of them will succeed in generating revenues that cover all the investments made by the music company. One can imagine that the funds received by artists from these companies in the form of royalty advances will be replaced by royalty-backed securities. Such royalty-backed securities could be sold to investors to finance an artist's recording or tour. As a result, the risk formerly borne by the music label would be transferred to investors.

The logic of financialization, confirmed by examples from other industries, suggests that such royalty-backed securities will become the basis for further financial instruments. Examples include collateralized bonds and derivatives based on royalty-backed securities, covering both fixed-income and 'subprime' catalogs. Naturally, at this stage of the process in question, we are moving into the realm of speculation. However, the logic of financialization observed in other industries indicates that once the financial markets deem the assets in question worthy of investment, development follows a scenario involving increasing the complexity of the instruments used. The literature on financialization suggests that if this happens, then at some point, we can expect the growth of a bubble followed by a spectacular crash of the market. Unlike the real estate market, the music market is significantly smaller, and hence, its potential collapse would not manifest as a global economic downturn akin to the 2008 recession. The repercussions of such a collapse would primarily impact the investors involved and the artists who failed to monetize their copyrights during the boom period. However, if the crisis were to affect the loss of investor confidence in the broader music industry, then it is highly probable that the most vulnerable low-earning artists, encompassing emerging musicians and session players, would also bear the brunt of the downturn.

Notes

1. For the sake of clarity, it should be explained that Hipgnosis Songs Fund is part of a broader capital structure established by Merck Mercuriadis. HSF is a song management fund listed on the London Stock Exchange and is the primary focus of this paper. Other entities include Hipgnosis Songs Capital (HSC, owned by Blackstone - a private equity business categorized as an alternative investment fund), Hipgnosis Songs Group (HSG, song creation and administration division), and Hipgnosis Song Management (HSM), which serves as an advisor to both HSF and HSC. This text focuses on HSF, but it should be noted that some tasks (e.g., rights administration) may be actually handled by other entities within the Hipgnosis group.
2. Revenues from streaming platforms also can be considered performance royalties. However, how they should be treated is subject to debate, and different countries have varying regulations, see Passman (2019).
3. Note that other entities within the Hipgnosis Group, such as HSM and HSG, may handle such tasks on behalf of HSF.
4. It should be noted that HSF and other entities in the Hipgnosis group in some cases may outsource administration of a catalog to external companies (music publishers or labels).
5. It should be remembered that even before the rise of song management companies such as HSF, there were variations in the operating models of music publishers across different countries and music genres. In conducting our analysis, we use the term 'traditional music publisher' to refer to a generalized ideal type of a company that manages songwriters' copyrights. Naturally, exceptions to this portrayal exist.
6. Please consider that this is not necessarily true.

7. One gets the impression that this is precisely what transpired in 2023, when, in response to the decision to withhold dividends and a substantial decline in share prices, HSF shareholders took actions that compelled the company's board to 'put forward proposals for the reconstruction, reorganization or winding-up of the company' (Hipgnosis, 2023) within six months from 26 October 2023.

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No potential conflict of interest was reported by the author(s).

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