

Legal Commentary

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Practical Insights: Copyright Chain of Title Review

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Adaptations based on novels, film and television, animations, games, and other works (often referred to in the industry as “IP”¹) with clout are a major source of content for the content industry. According to data released by Endata, IP dramas accounted for 65-70% of the top 50 drama series from 2018 to 2020, consistently occupying the mainstream market². IP has become a core asset of the film and television industry and even the entire content industry.

However, in practice, IP usually changes hands multiple times. Every time when an IP changes hands, the possibility that defects exist in the rights to the IP increases. Therefore, in order to avoid the project being hindered or even caught in infringement disputes due to the defects in the target IP, investors should request the IP transferor or licensor to provide a complete chain of title from the original right holder to that party before investing in an IP project. Investors should review the rights and the restrictions on the rights to the IP through all relevant transfer and license documents, including all certificates, license/transfer agreements, authorization letters, confirmation letters, etc. In this article, we use IP licensing as an example to analyze and summarize the basic methods, common risks, and corresponding solutions of the copyright chain of title review. But the above analysis and summaries are also applicable to the case of IP transfer.

Summary

The basic method for conducting a copyright chain of title review is to organize all documents that the licensor provides into a table in chronological order, listing the licensed content, licensed rights, authorized means, exclusivity, license period, licensed territory, authorized language(s), whether the license is sublicensable, and whether any other restrictions are imposed, etc. Each key term in the upstream and downstream documents should be carefully compared to identify the legal and commercial issues involved.

As for the risks that are inherent in the IP transfer/license process, it is impossible to comprehensively summarize because the focus tends to vary from industry to industry and from project to project. Based

¹ Herein, IP does not refer to legal concept of intellectual property, but collectively refers to works (such as literature, film and television, animation, games, etc.) that have internet traffic and fan base.

² See Endata, 2020 Chinese Drama Series Market Research Report.

on our practical experience, we recommend investors to review the chain of title from three perspectives — (1) whether the licensor is entitled to grant the license, (2) whether the granted rights cover all the commercial development needs of the project, and (3) whether the granted rights are subject to restrictions. From these three perspectives, we briefly summarize the common risks in the IP transfer/license process in the following table. In the second part of this article, we proceed to analyze each common risk in detail and propose corresponding solutions.

Review Perspectives	Common Risks
Whether the licensor is entitled to grant the license	<ul style="list-style-type: none"> ■ Whether the author of Internet literature has the right to directly license the work; ■ Whether the IP is co-owned and thus requires the license from the co-owners; ■ Whether the IP is a derivative work and thus requires license from each level of upstream right holders; ■ Existence of gaps in the chain of title due to mixed use of affiliates; ■ Existence of conflicting prior licenses (i.e., concurrent licensing); ■ Existence of sublicense rights.
Whether the rights granted by the licensor cover all the commercial development needs of the project	<ul style="list-style-type: none"> ■ Whether the rights granted by the licensor cover all the commercial development needs of the project; ■ Whether the rights granted by the licensor can help to achieve the expected competitive advantages.
Whether the rights granted by the licensor are subject to restrictions	<ul style="list-style-type: none"> ■ Whether the license period is clear and definite; ■ Existence of a right reversion mechanism; ■ Existence of additional limitations.

Title defects are usually difficult to avoid if the chain of title is relatively long. When title defects are found, the most common practice adopted by each party in the chain of title is to “patch up” the defects by directly negotiating with the original owner of the IP (such as the authors of literary works). However, logical gaps and risks may be inherent in this “patch up” method of reaching directly to the original owner and skipping over intermediate licensees. In the third part of this article, we propose more careful and prudent methods for investors to rectify the defects.

Summary of risks

I Whether the licensor is entitled to grant the license

Whether the licensor is entitled to grant the license is vital to an IP transaction. The transaction may be subject to significant risks if the licensor’s rights to the target IP are defective or the chain of title is incomplete.

- **Common Risk 1: Whether the author of Internet literature has the right to directly license the work**

Internet literature has always been an important source of content for the content industry³. If the target IP is ordinary literature, the most commonly adopted industry practice is for investors to deal directly with the author. However, for Internet literature that is serialized on major Internet literature platforms (such as qidian.com, jjwxc.net, xxsy.net, etc.), according to the platforms' general rules and practices, it is highly possible that authors have signed agreements with the platforms concerning works first published on the platform (especially works that are marked as signed or VIP). Authors may grant certain right to the platforms through such agreements, such as the rights of alteration, distribution, revenue share, and derivative development, which may deprive the authors of the right to license the work to other third parties⁴. Specifically, agreements between China Literature and the author can be divided into the following three types⁵:

	Commercial Development Rights ⁶	Revenue Share	Other Priority Rights ⁷
Basic Agreement	No	No	No
General License Agreement	Yes	Yes	Potentially
In-depth Cooperation Agreement	To be determined through negotiations.		

It is evident that significant uncertainty exists in practice as to whether the author of an Internet literary work has the right to directly grant the license. Therefore, investors should carefully review the terms and agreements of the relevant Internet literature platforms. If such agreements are only accessible to partial users, investors could consider to search through public channels (such as relevant news reports and judicial cases). In addition, investors should request the licensor to provide evidence that the author has the right to directly grant the license, such as a confirmation letter issued by the Internet literature platform or the agreement entered into between the licensor and the Internet literature platform.

■ **Common Risk 2: Whether the IP is co-owned and thus requires license from the co-owners**

Work may be co-owned by multiple right holders, especially in the case of audiovisual works, such as

³ The Scriptwriter Education Committee of the China Film Industry Association and the China Film Scriptwriter Research Institute of the Beijing Film Academy, *the Report on the Evaluation of the Potential for Adapting IP TV dramas from Internet Literature from 2019 to 2020*. According to the report, among a total of the 309 hit TV dramas in 2018 and 2019, 65 were adapted from Internet literature IP, accounting for about 21% of the total; and among the top 100 hit TV dramas, this percentage is as high as 42%.

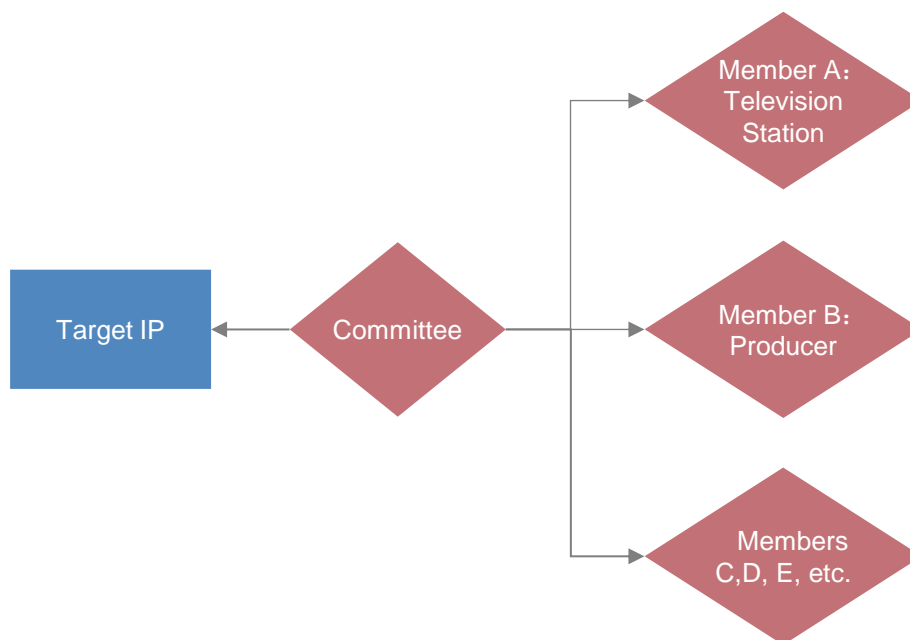
⁴ For example, in the Case (2018) Su Min Zhong No.130, the author of a tomb-robbing novel series exclusively licensed the copyright of the first part of the novel series (except for the author's personal rights) to a certain Internet literature platform on April 28, 2006, and transferred all the rights of the first and second parts of the novel series (except for the author's personal rights) on January 18, 2007.

⁵ China Literature, *the New Management of China Literature launched "Single Optional New Contract"*, https://mp.weixin.qq.com/s/EjLHA9A_EI3cVOrPP9clg.

⁶ Commercial development rights here refer to the rights of commercial development, such as the right of adaptation to the work published by the author on the Internet literature platform other than the rights of reproduction and information network dissemination.

⁷ Other priority rights refer to the Internet literature platforms' priority rights to obtain the transfer/license of other works created by an author under the same conditions.

films and TV series, that involve large investments and complicated production processes. For example, in practice, copyrights of Japanese animations are generally co-owned by a committee comprising members of television stations, producers, and so on. The illustration is as follows.



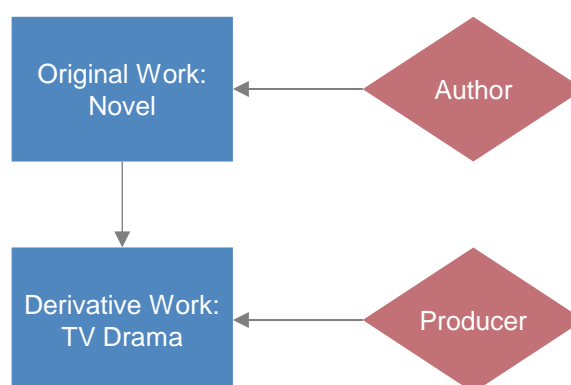
The co-owners of the target IP may agree that the target IP to be disposed of only if a consensus is reached among the co-owners, or may agree that certain rights of the target IP are exclusively owned by a specific member. For example, in the case of Yi Zhong Min Zhong Zi [2012] No.2518⁸, the copyright of the film at issue was co-owned by Company A, Company B, and Company C, but only Company A held the rights to broadcast on television and transmit online domestically and overseas. Despite such agreement, Company B licensed the exclusive right to transmit the work online to Company D, and Company D sublicensed to the defendant. Company A then sued the defendant, arguing that the defendant’s dissemination of the film constituted infringement. Ultimately, the court ruled that Company B neither had the right to transmit the work online nor was it entitled to license this right to others. Thus, the defendant could not acquire from Company D the right of information network dissemination by signing a license agreement with Company D. In fact, the defendant was at fault for failing to exercise due diligence by strictly examining whether the licensed right was defective when it signed the license agreement and was therefore required to bear the corresponding legal consequences.

Thus, if IP is co-owned by multiple copyright owners, only examining whether the upstream right holder has the right to grant the license by the appearance of the work’s attribution, etc. cannot rule out the risk. Investors should also comprehensively examine the original agreement or relevant authorization letters between the upstream right holders and their co-owners. If an investor deals with only one of the co-owners, a key issue is to examine whether the co-owner is entitled to grant the relevant license on behalf of all co-owners.

⁸ See the Civil Judgment (Yi Zhong Min Zhong Zi [2012] No.2518) rendered by Beijing No. 1 Intermediate People’s Court.

■ **Common Risk 3: Whether the IP is a derivative work and thus requires license from each level of upstream right holders**

If the target IP is a derivative work such as an adaptation, it may involve multiple layers and different types of upstream rights. For example, TV dramas adapted from an original novel may concurrently involve rights relating to the original novel and rights relating to the adapted TV drama. The illustration is as follows.



In such cases, investors should obtain licenses from all levels of right holders, in particular the copyright holder of the original work⁹. In judicial practice, if a license does not explicitly involve the license from the original work, the licensor is generally not obligated to obtain and grant such license. For example, in the case of Hu Er Zhong Min Wu (Zhi) Chu Zi [2010] No.158¹⁰, the defendant licensed to the plaintiff the right to develop games related to a tomb-robbing novel based upon cartoon figures of the novel. After the plaintiff adapted and developed the game in accordance with the agreement, the plaintiff was sued for infringement by right holders who enjoyed the copyright of the novel and the right to adapt online games. The plaintiff alleged that the defendant had an obligation to obtain authorization from the copyright holder of the original novel when it licensed the plaintiff to develop the above game. However, the court did not support the plaintiff’s claims, holding that the defendant had no such obligation to obtain authorization from the copyright holder of the original novel, because the parties did not stipulate in the agreement on terms relating to the original work license.

Thus, it can be seen that in the case of the target IP is a derivative work, investors should examine whether licenses have been obtained from all levels of upstream right holders, especially the copyright holder of the original work. If not, it is recommended to specify in the agreement which party is obligated to obtain the relevant rights.

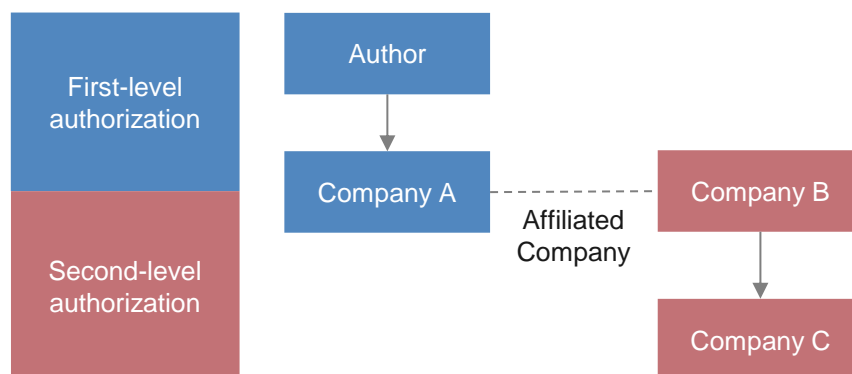
■ **Common Risk 4: Existence of gaps in the chain of title due to mixed use of affiliates**

In practice, one of the most common defects that investors easily overlook is the gaps of the chain of title caused by using different entities within a group company to manage and operate IP. That is, the **licensee** of the IP is Company A, while the **licensor** of the IP is Company B—an affiliated company of

⁹ In particular, when reproducing the films and TV dramas (especially the overseas ones), even if such films and TV dramas are original, attention should be paid to whether the ownership of the script still rests with the screenwriter or his studio and, if so, attention should be paid to whether authorization or confirmation has been obtained therefor.

¹⁰ See the Civil Judgment (Hu Er Zhong Min Wu (Zhi) Chu Zi [2010] No.158) of Shanghai No. 2 Intermediate People’s Court.

Company A. The illustration is as follows.



Objectively speaking, the risk of such defect is not high because Company A and Company B are affiliated companies. However, if Company A subsequently refuses to acknowledge Company B's act of authorization, there is a risk that Company B's authorization and all subsequent downstream authorizations may be invalid. Take a trademark dispute case as an example. A licensee signed a trademark transfer contract with a Taiwan company, a subsidiary of a group company, which stipulated the transfer of various trademarks including the trademark at issue. However, the trademark at issue was registered in Chinese mainland by a Shenzhen company — another subsidiary within the group. The court held that the trademark transfer contract was signed between the licensee and the Taiwan company. The Shenzhen company did not participate in the negotiation, nor did it authorize any other party to dispose of the trademark at issue and conclude the trademark transfer contract, or entrust the trademark to other parties. The Shenzhen company was therefore not bound by the trademark transfer contract and the licensee was not entitled to the trademark at issue merely because it had signed the trademark transfer contract with the Taiwan company. Similarly, in the case of Xiang 01 Min Chu [2018] No. 1146¹¹, the defendant claimed that it had reached a settlement agreement through mediation with a company, in which the company promised not to pursue any legal responsibility of other TV programs for which it has made pre-litigation preparations such as notarization before the effective date of the mediation or has filed but the court has not yet ruled. The defendant claimed that because the plaintiff was an affiliated company of that company, the mediation agreement should also apply to the plaintiff. However, the court held that the defendant's claim lacked a factual and legal basis, considering the contractual parties to the meditation agreement are the company and the defendant, and the company and the plaintiff are independent legal identities. Even if it was proven that the company was affiliated with the plaintiff to some extent, the evidence submitted by the defendant could not prove that the plaintiff was bound by the mediation agreement reached between the defendant and the company.

Therefore, in reviewing a copyright chain of title, investors should carefully check the consistency of identities along the chain and should reconsider if the upstream right holders and the downstream right holders are affiliates. Investors should request the licensor to provide an internal license agreement among those affiliates to ensure continuity of the copyright chain of title.

¹¹ See the Civil Judgment ([2018] Xiang 01 Min Chu No.1146) rendered by the Changsha Intermediate People's Court.

■ Common Risk 5: Existence of conflicting prior licenses (i.e., concurrent licensing)

Concurrent licensing is a common industry practice (similar to “twice-sold property”). For example, in a dispute involving a popular song, the songwriter licensed the song to different parties in a paid or unpaid manner several times, causing chaos in the chain of title.

In the case of concurrent licensing, Chinese judicial practice usually protects prior rights over the rights of later bona-fide third parties¹². That is, if a copyright has been licensed to a prior licensee before it is licensed to a later one, the rights obtained by the later licensee would become invalid to the extent of the conflict, or the rights obtained by the later licensee cannot be exclusive to the extent of the conflict (in determining the scope of conflict of concurrent licenses, factors to be considered include the nature, scope, and content of the license). For example, if the licensor has exclusively licensed to a third party the right of information network dissemination of the target IP before it licenses the same to the investor, the investor cannot obtain that right even if the licensor expressly licenses to the investor in an agreement a full bundle of rights to the target IP (including the right of information network dissemination).

Under such circumstances, a bona-fide third party may fail to obtain licensed rights in accordance with the license agreement even if it has paid substantial royalties, thereby suffering heavy losses. In order to control the risk of concurrent licensing, it is insufficient to merely require corresponding representations and warranties. Investors should confirm clearly with the licensor whether there are any prior licenses and request the licensor to disclose all downstream licenses. We also recommend investors to conduct news report research and industry surveys for all prior licenses that may exist. For important transactions, investors may also withhold a reasonable percentage of the final payment for a certain period of time, or require the licensor to provide certain guarantees to further reduce the risk of concurrent licensing.

■ Common Risk 6: Existence of sublicense rights

In the target IP license process, it is important for investors to confirm whether all upstream right holders have the right to sublicense. Generally, upstream licensors reserve rights they do not expressly grant. If the chain of title document does not expressly state that the licensed party has the right to sublicense, the target IP cannot be sublicensed to the downstream. Notably, risks also exist if an upstream licensor does not possess a right to sublicense but invites an investor to jointly exercise certain licensed rights in a cooperative manner. For example, in the case of *Jing 0102 Min Chu* [2016] No. 14029¹³, the court held that because the agreement at issue in the case expressly provided that no party was permitted to transfer any of its rights and obligations without the written consent of the other party, the defendant was deemed to be in breach for signing a joint distribution agreement with

¹² Paragraph 2, Article 3.10 of the Guidelines of the Beijing Higher People’s Court for the Trial of Copyright Infringement Cases provides: “Where a copyright owner repeatedly transfers or licenses the same right, the assignee or licensee shall be deemed as having obtained the copyright or the exclusive license as long as the order of precedence can be ascertained, unless there is evidence to the contrary.” In addition, see the Civil Judgment (Yue Gao Fa Min San Zhong Zi [2008] No.371) rendered by the Guangdong Higher People’s Court and the Civil Judgment (Jing 73 Min Zhong [2018] No.394) rendered by the Beijing Intellectual Property Court.

¹³ See the Civil Judgment (Jing 0102 Min Chu [2016] No. 14029) rendered by the Xicheng District People’s Court of Beijing.

a third party because it constituted the transfer of distribution rights to a third party.

II Whether the rights granted by the licensor cover all the commercial development needs of the project

In practice, the copyright holders generally divide their IP into different types and categories and clearly stipulate the type and quantity of the licensed content, authorized media, and authorized means. Therefore, after confirming a right holder is entitled to grant the license, investors should focus on whether the license can satisfy their commercial development needs and whether the license may affect the realization of their commercial interests.

■ Common Risk 1: Whether the rights granted by the licensor cover all the commercial development needs of the project

The Copyright Law divides copyrights into 17 rights, including the rights of reproduction, publication, adaptation, audiovisual work production, exhibition, broadcasting, and information network dissemination. The rights required for a specific project will vary based upon specific commercial needs. For example, for TV drama development projects, the key rights to obtain are the rights of adaptation and audiovisual work production; for game development projects, the right of adaptation; for audiobook development projects, the rights of reproduction, adaptation, and performance.

However, in addition to the key rights mentioned above, there are also other rights that may be necessary to the project's practical development and operation. For example, after an investor develops a TV drama based on the target IP, the next step is to distribute the work, which may involve rights of information network dissemination, broadcasting, exhibition, and so on. If the license agreements do not expressly provide the right category under the Copyright Law (for example, it just provides "the right to transmit online" rather than "the right of information network dissemination"), how do investors confirm whether they have acquired all rights necessary for the project's commercial development needs?

In judicial practice, if the license of a specific right category is not expressly stated in the license agreement, investors can determine whether such rights have been licensed based on the description of the authorized means. For example, in the case of (2011) Er Zhong Min Chu Zi No. 16049¹⁴, the plaintiff claimed the defendant infringed its right of audiovisual work production by developing a TV drama based upon the screenplay adapted from a novel, considering the transfer agreement reached between plaintiff and defendant merely stipulated the transfer of the right of adaptation of the novel without mentioning transfer of the right of audiovisual work production. After a hearing, the court held that the transfer agreement contains many articles related to the finished TV drama, such as "title of the finished TV drama," "statement to be displayed on beginnings of the TV drama," "change of title of the TV drama," "ownership of copyright of the finished TV drama," and "provide two sets of CDs of the finished TV drama for memory". It could be seen from the words and expressions used in the transfer agreement that the fundamental purpose of the parties for entering into the transfer agreement was to produce a TV drama based upon a screenplay adapted from the novel. Therefore, the rights

¹⁴ See the Civil Judgment (Er Zhong Min Chu Zi [2011] No.16049) rendered by Beijing No. 2 Intermediate People's Court.

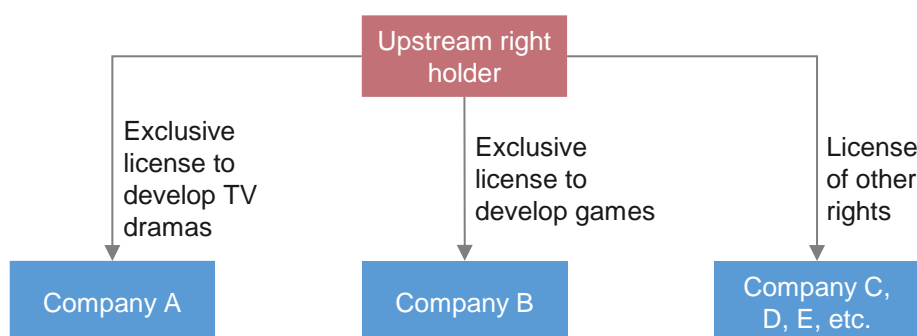
transferred by the plaintiff should include the rights of adaptation *and* of audiovisual work production.

However, it should be noted that even if a right is expressly granted in a license agreement, the actual scope of the license may be limited if the right is merely licensed for a restricted authorized means. For example, in the case of Zhe 01 Min Zhong [2017] No.5396¹⁵, the court held that the authorized means of the licensed right expressly stipulated in the agreement was for “electronic publication” (which the court considered to be commonly understood as text form). Thus, the defendant engaged in infringement by developing and distributing an audiobook (i.e., audio form) without authorization. The court based its judgment on the following grounds: written books and audiobooks are consumed differently, which face different consumer groups and have different independent markets. If the target IP has value for multiple markets, the value that is not expressly assigned or licensed for a specific market remains with the author.

Therefore, during the process of chain of title review, investors should comprehensively examine rights explicitly granted in the upstream documents, and the description of the authorized means (especially whether the agreement restricts the scope of the licensed rights to certain market segments) to determine through the interpretation of the purpose of the contract whether the rights granted by the licensor can cover the commercial development needs of the project. If, based on the above methods, investors are still not convinced that whether the rights it has obtained can cover project needs or no, we recommend to request the upstream right holder to provide supplementary documents to specify the scope of the license or to obtain other rights not expressly granted in the chain separately from the upstream rights holder.

■ **Common Risk 2: Whether the rights granted by the licensor can help to achieve the expected competitive advantages**

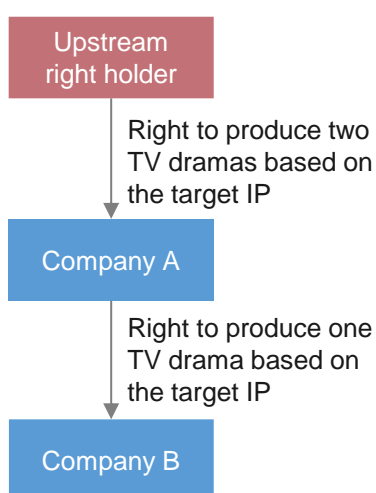
As mentioned above, right holders typically split their IP into different categories and license each category separately—such as licensing to Company A the right to **create TV dramas** based on the Target IP and to Company B the right to develop games based upon the Target IP (“**Scenario 1**”). Although target market segments vary for different right categories, investors would still achieve competitive advantages in the corresponding market segments as long as the licensed rights are on an exclusive basis. Details of Scenario 1 are illustrated as follows.



However, there is another scenario that may affect the competitive advantage analysis: Company A

¹⁵ See the Civil Judgment (Zhe 01 Min Zhong [2017] No.5396) of the Hangzhou Intermediate People’s Court of Zhejiang Province.

obtains the right to create **two** TV dramas based on the target IP from an upstream right holder, but only licenses the right to create **one** TV drama to Company B (“**Scenario 2**”). In this case, even if the TV drama development right licensed to the investor (i.e., Company B) is exclusive, its competitive advantage may still be impaired by the rights reserved to the upstream right holder (i.e., Company A) to develop another TV drama, which may constitute an exception to the exclusive license. If the upstream right holder and the investor each develop and distribute a TV drama based on the same IP at the same time, the investor’s expected competitive advantage from the target IP would be diluted substantially. Therefore, in order to avoid this risk, we would recommend investors verify with the upstream right holder whether it has plans to develop another TV drama and request a confirmation letter stating that it waives its rights to develop another TV drama. The details of Scenario 2 are illustrated as follows.

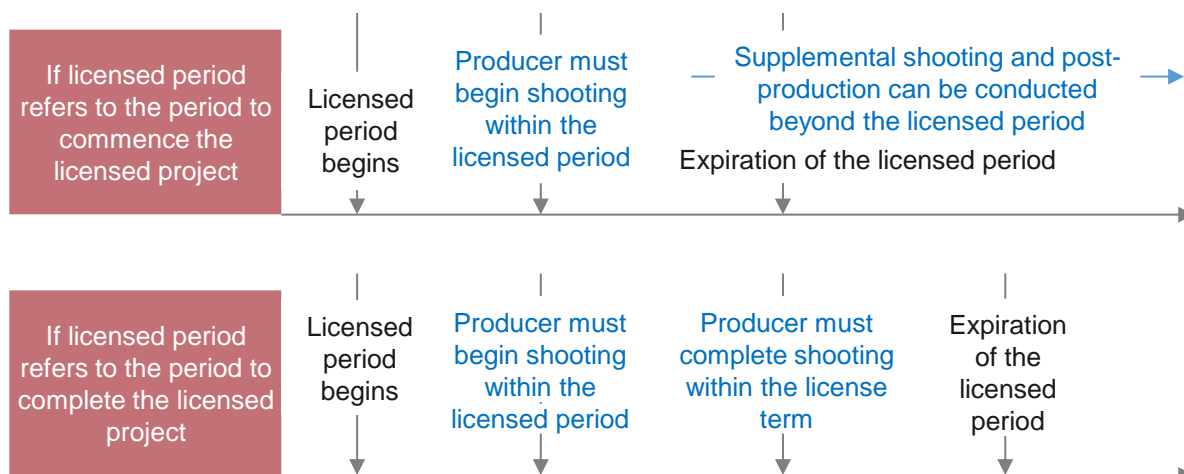


III Whether the rights granted by the licensor are subject to restrictions

After confirming that the licensor holds the relevant rights of the target IP and has the right to license, and such rights are consistent with the commercial development needs of the project, investors should further examine whether the rights are subject to any restrictions and, if so, whether the relevant restrictions are clear and explicit, so as to ensure the project proceeds smoothly and protect the commercial value of the project from being adversely affected due to title defects in such rights.

■ Common Risk 1: Whether the license term is clear and definite

Today, as IP transaction gradually matures, the author and other upstream right holders will generally restrict the licensed period of any licensed right to downstream licensees (usually three to eight years) to ensure the timely and reasonable exploitation and utilization of the target IP. However, when a licensed period is provided, opinions may conflict over the specific meaning of the period—whether it means the period for commencement of the licensed project or the completion date of the licensed project. Answering this question is of great significance for it may affect the valuation of the target IP and the design of the development cycle of the project. Take film and TV drama projects as examples, the consequences resulting from this issue are specifically illustrated as follows.



In the case of *Jing 0101 Min Chu [2016] No. 6846*¹⁶, the plaintiff licensed the right of adaptation, audiovisual work production, etc. to the defendant for a licensed period ending on March 14, 2016, while failing to define the meaning of the licensed period in the agreement. Subsequently, the plaintiff sued the defendant for infringing on its rights of adaptation, audiovisual work production, and so on, based on grounds that the defendant did not begin shooting until March 12, 2016, and the subsequent shooting and post-production had exceeded the licensed period. Upon trial, the court of the first instance held that the defendant should have completed the screenplay adaptation and production of the TV drama before the expiration of the licensed period, including screenplay adaptation, shooting, and post-production. In other words, the first-instance court believed licensed period meant the term for completing all licensed projects unless otherwise agreed in the license agreement.

However, as we all know, the development cycles for film and TV drama are quite long and will usually last for several years. The development process is also very complex and may involve scriptwriting, selection of producers and casting, formal production, post-production, government approvals, and the selection of the distribution schedule, etc. All of those factors add uncertainty to the time of the development cycle. Therefore, where a license is granted with an indefinite licensed period, we recommend investors to consider the following options: (i) to request the licensor to apply for the upstream right holders to specify that the licensed period refers to the term for commencing the licensed projects (it can refer to the date when the production project officially commences in the case of film and TV drama projects); (ii) to request the licensor to apply for the upstream right holders to grant the downstream the option to extend the licensed period by making additional payments before the expiration of the licensed period, if the licensor refuses to define the licensed period in a manner satisfactory to the licensee and the licensed period is relatively short.

■ **Common Risk 2: Existence of a right reversion mechanism**

Licensed rights may be subject to a reversion mechanism, which give licensor the right to revert the rights granted to downstream licensees upon the occurrence of a trigger event. Trigger events include the failure to pay licensing fees, delay in payment of revenue share, failure to make commercial use

¹⁶ See the Civil Judgment (*Jing 0101 Min Chu No. 6846*) rendered by Dongcheng District People’s Court of Beijing. The case has now been dismissed and remanded due to the disqualification of one of the defendants.

of the target IP within a time limit, abuse of the target IP, etc. If a right of reversion exists, investors should confirm with the licensor whether any trigger event has occurred and request the licensor to provide relevant evidence, such as licensing fee payment certificates and contracts evidencing commercial development of the target IP.

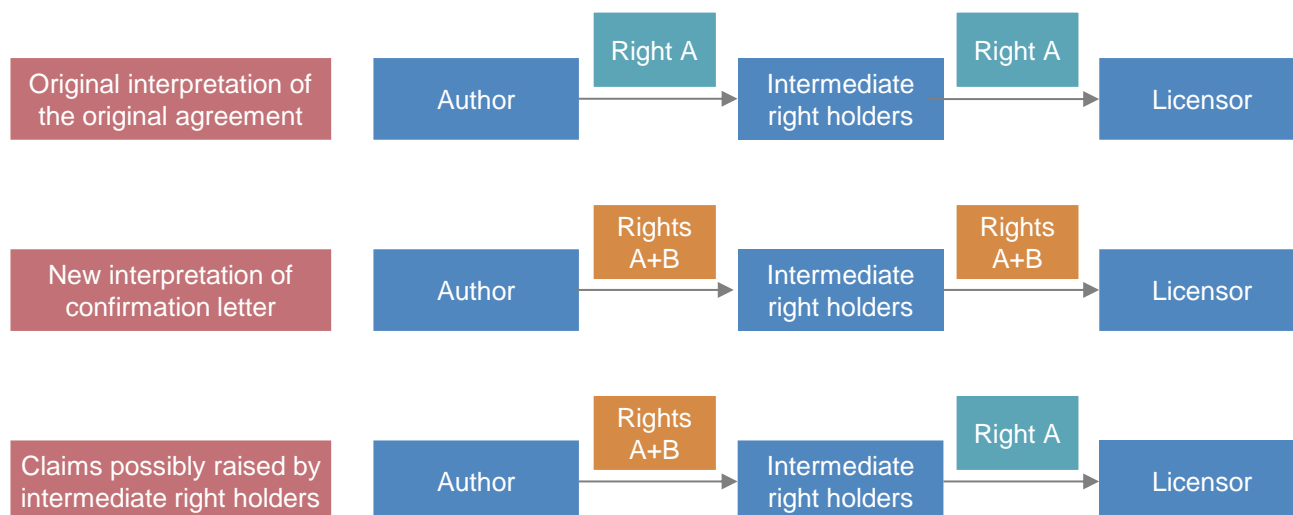
■ **Common Risk 3: Existence of additional limitations**

New limitations may be imposed on the target IP with each change of hands, especially when they are licensed by upstream right holders who have development capabilities. Those upstream right holders may carry out preliminary development work based upon the target IP before they license the IP to downstream companies, and usually attach commercial restrictions on the development of target IP when granting such licenses. For example, they retain certain control over the development process (such as the right of creative supervision) and enjoy certain intellectual property rights, revenue rights and attribution rights to the final results of the development without bearing the development costs. Although these limitations are commercial and will not give rise to major legal disputes in most cases, they may still produce adverse effects on a project or even impair the commercial value of the project if not handled properly by investors.

Potential risks in common solutions proposed to resolve title defects

As mentioned above, copyright chain of title defects become relatively difficult to avoid as copyright changes hands multiple times. Generally, once a title defect is discovered, the end licensee will try to resolve the defect by directly signing a supplementary agreement with, or seeking a confirmation letter from, the most upstream right holder (such as the author). However, there are potential risks in such practice since it bypassing intermediate right holders, although it appears to be the safest choice considering the most upstream right holder generated the IP.

For example, to resolve title defects in copyright that has passed through multiple upstream right holders, an investor might request the upstream right owner to provide an confirmation letter issued by the author to confirm the expansion of the scope of licensed right at each time of the transfer/license—for example, to confirm the expansion of transmission channels from the original offline channels (“**Right A**”) to both online and offline channels (“**Rights A+B**”). However, if Rights A+B is exclusively licensed by the author to intermediate licensees, neither Right A nor Right B can be further licensed to any other persons during the licensed period. Therefore, the expansion of the licensed right, as confirmed by the author’s confirmation letter, would merely take effect for the author’s downstream licensees with whom the author has directly signed license agreements, but would have no effect on other intermediate right holders with whom the author has not signed a license agreement. That is to say, if the upstream right holder claims that it merely licenses Right A to the investor (possibly by following the author’s instructions), the scope of the investor’s rights would remain ambiguous. The IP transaction process is as follows.



Therefore, in its attempt to resolve the title defect, investors should realize it is far from sufficient to merely sign a supplementary agreement with or obtain a confirmation letter from the most upstream right holder. A safe title defect solution requires investors to consider many other factors, including to examine whether the supplementary agreement or the confirmation letter will constitute concurrent licensing that would be held invalid, whether different interpretations may exist to such supplementary agreement or confirmation letter considering they are reached by bypassing the intermediate licensees. Take the above case as an example, if the investor wishes to expand the scope of licensed rights from Right A to Rights A+B., it would be advisable for the investor to seek an additional license (i.e., a separate license of Right B) directly from the most upstream right holder, or to sign supplementary agreements or confirmation letters with all upstream right holders (including various intermediate licensees).

Conclusion

The above are some of our insights on the basic methods, common risk and our proposed title defect solutions of the copyright chain of title review. There remain many other noteworthy issues in IP transfer/license in practice that we will separately explore in subsequent articles, including the design of transaction structures, drafting of transaction documents, and transaction negotiations.

Important Announcement

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

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