



**MECHANICAL
LICENSING
COLLECTIVE**

**Explanation of
Statutory Rates for
Digital Audio Mechanical Uses**

Version 1.0 - August 2024

What Rates Does The MLC Use to Calculate Royalties?

The royalties that The MLC collects from DSPs and distributes to Members are calculated using the **statutory royalty rates**¹. The rates are set by the Copyright Royalty Board (CRB), a 3-person panel of Copyright Royalty Judges and published in the Code of Federal Regulations.



The rates are set every 5 years, and each rate period is given a short name to make it easy to refer to.

Pre-Phono I or “Pre Phono 1”	Phono I or “Phono 1”	Phono II or “Phono 2”	Phono III or “Phono 3”	Phono IV or “Phono 4”
2007	2008-2012	2013-2017	2018-2022	2023-2027

The rates vary depending on how the sound recording of the song² is distributed. For example, the rate is different for permanent downloads (the rate is a fixed amount per sale) and various types of interactive streaming offerings (the rate is a formula that results in an amount per play).



Fixed amount per sale

**Permanent Downloads
Ringtones**



Variable amount per play
which varies by the service offering by a DSP each month

**Interactive Streams
Limited Downloads³**

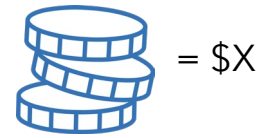
$$= \frac{((\text{Greater of A or B}) - (C))}{D}$$

Notes:

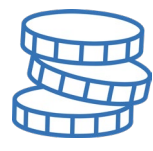
1. The statutory rates The MLC uses are found in the [Code of Federal Regulations, Title 37, Chapter III, Subchapter E, Part 385](#)
2. The U.S. copyright law and federal regulations use the term “musical works” instead of songs. A song or musical work is the melody, rhythm, and/or harmony and accompanying lyrics (if there are any).
3. For mechanical royalty rate calculation and royalty reporting, limited downloads are treated the same as interactive streams. For definitions of limited downloads, interactive streams, and other terms used in this document, visit The MLC FAQ Music Industry Terminology page on our website.

What Rates Does The MLC Use to Calculate Royalties?

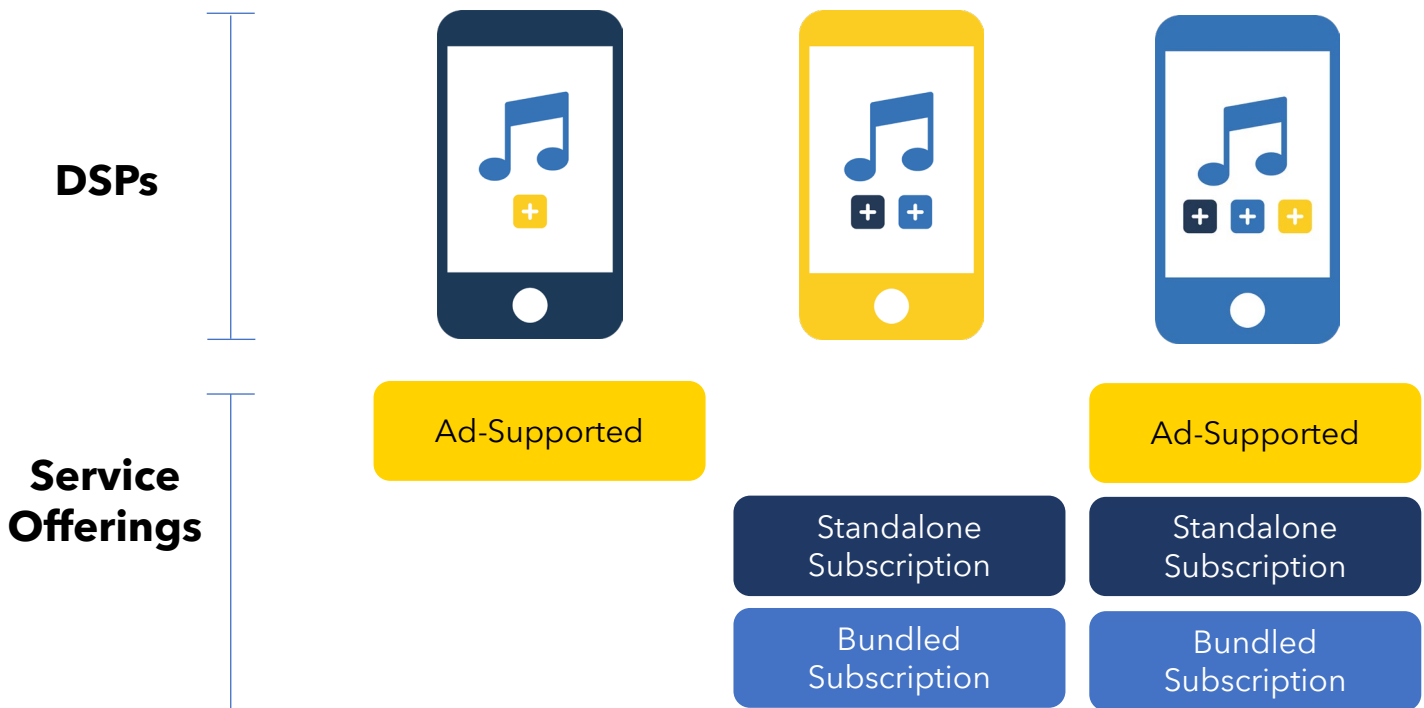
In each rate period, there is a single rate for **permanent downloads** and a single rate for **ringtones**.



In each rate period, there are different rate formulas for different types of **interactive streams and limited download** offerings, all of which are calculated using generally the same **4 steps**.

 =
$$\frac{((\text{Greater of A or B}) - (C))}{D}$$

This calculation is done **each month**, for each service offering on each DSP.



See the **Statutory Royalty Rate Formula Tables** on our website for an explanation of the formula variations.



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Explanation of Statutory Rates for Digital Audio Mechanical Uses

How Mechanical Royalties for
INTERACTIVE STREAMS
and
LIMITED DOWNLOADS
Are Calculated

How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

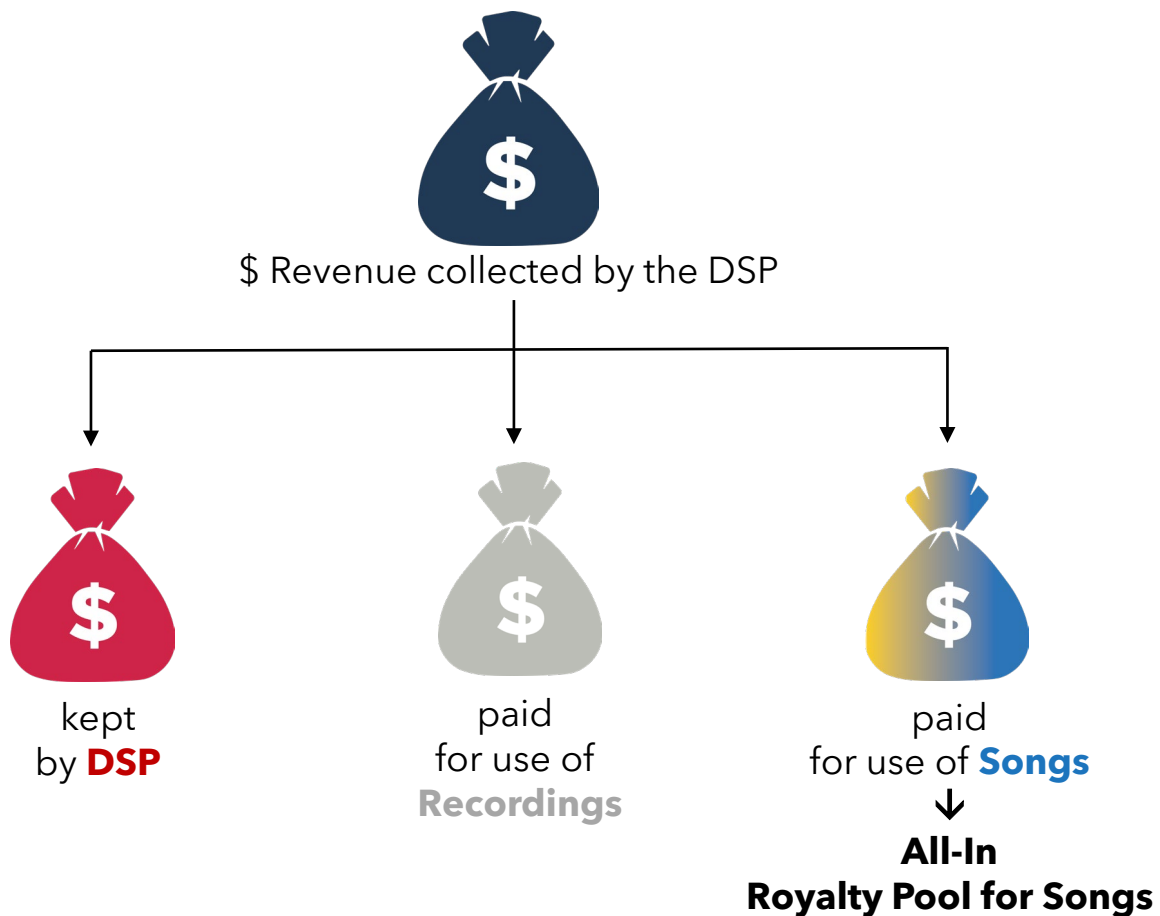
1

DETERMINE

Total All-In Royalty Pool for Songs⁴

Determine how much of the revenue collected by the DSP from subscribers, advertisers, and sponsors will be paid to the rightsholders of songs.

This amount is called the **All In Royalty Pool for Songs**.



Notes:

4. This is called the *All-in Royalty For the Offering*. Phono IV: 37 CFR §385.21(b)(1)

How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

1

DETERMINE

Total All-In Royalty Pool for Songs



The **All-In Royalty Pool for Songs** will be equal to **one of the following** amounts⁵:

% of DSP Revenue
including from subscriptions, advertising, sponsorships, and commissions

or

% of Sound Recording Payments
given for the use of sound recordings,⁶ up to a limit of \$x.xx per Subscriber for some types of offerings

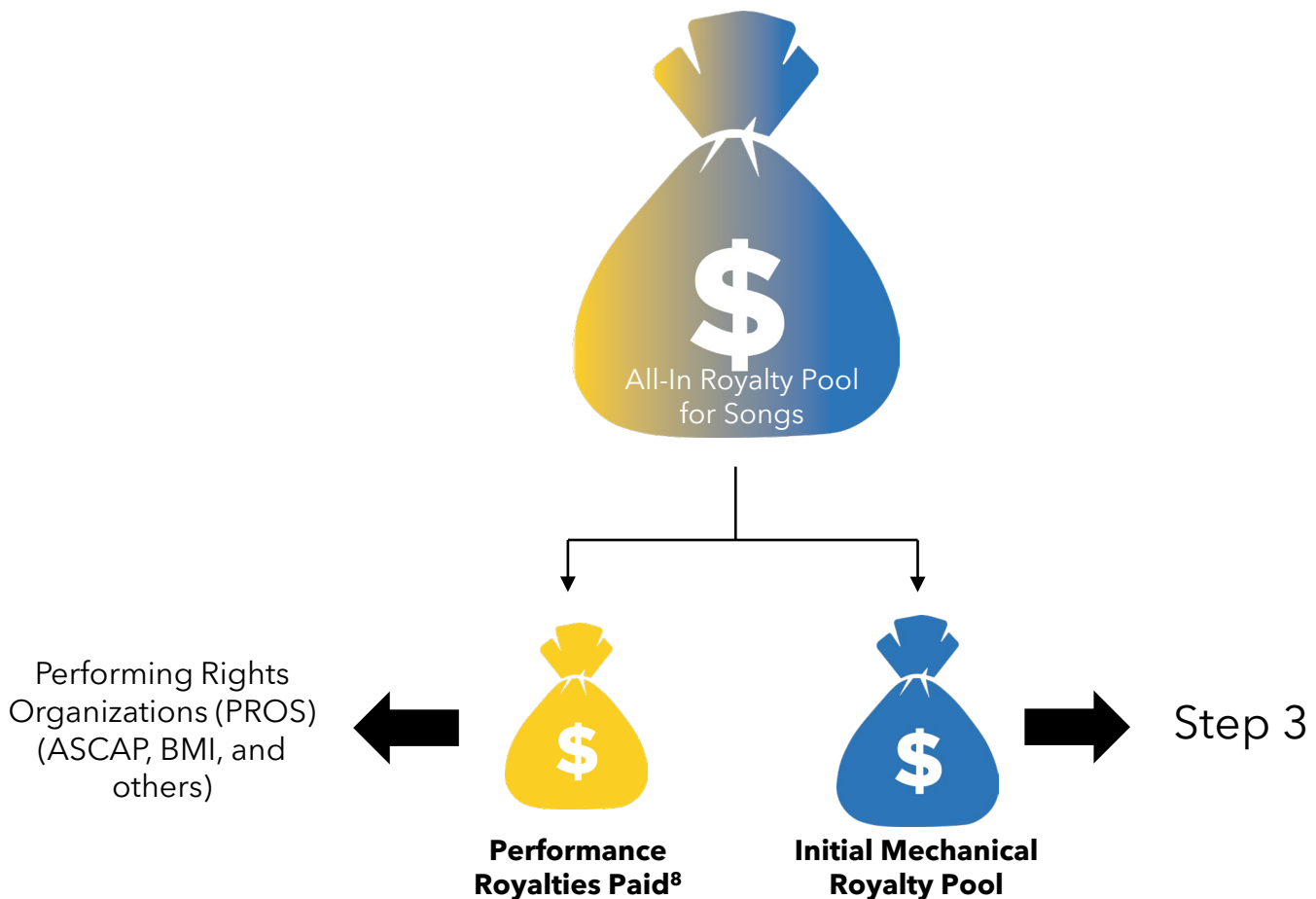
The All-In Royalty Pool for Songs will be divided between performance royalties and mechanical royalties

Notes:
5. The choice of amount is determined by the rules set out in the relevant rate formula for each offering type.
6. This is called the *Total Cost of Content (TCC)*. Phono IV: 37 CFR §385.2

How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

2 SUBTRACT Performance Royalties⁷

Determine the initial Mechanical Royalty Pool by subtracting the Performance Royalties from the **All-In Royalty Pool for Songs**



Notes:

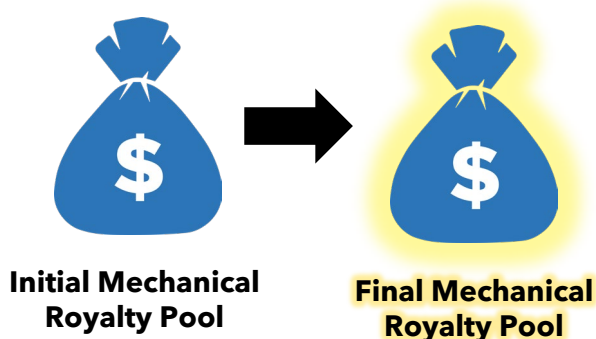
7. This is called the *Subtract Applicable Performance Royalties*. Phono IV: 37 CFR §385.21(b)(2)

8. The royalty rate used for performance royalties is negotiated between the DSPs and the PROs and is generally kept confidential.

How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

3 FINALIZE Mechanical Royalty Pool⁹

Finalize the **Mechanical Royalty Pool** by applying any required minimum amounts based on the number of paid subscribers



The **Mechanical Royalty Pool** will be equal to the **greater of the following** amounts¹⁰:

\$ Amount
remaining after subtracting performance royalties from the All-In Royalty Pool for Songs

or

\$x.xx per Subscriber
of the offering (for offerings with paid subscribers)

Notes:
9. This is called *Determine the Payable Royalty Pool*. Phono IV: 37 CFR §385.21(b)(3)
10. The choice of amount is determined by the rules set out in the relevant rate formula for each offering type.

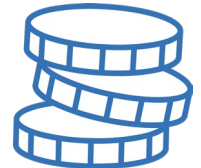
How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

4 CALCULATE Royalties for Each Song¹¹

Calculate the amount of royalties per play for the month

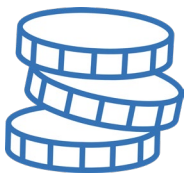


Total number of plays eligible for Blanket License royalties in the month for the offering¹²



Amount of royalties per play for the month

Then multiply the per play amount by the number of times the song is played in the month



Amount of royalties per play for the month



Total number of times a song is played in the month for the offering¹²



Mechanical royalties for the song

Notes:

11. This is called *Calculate the per-work royalty allocation*. Phono IV: 37 CFR §385.21(b)(4).

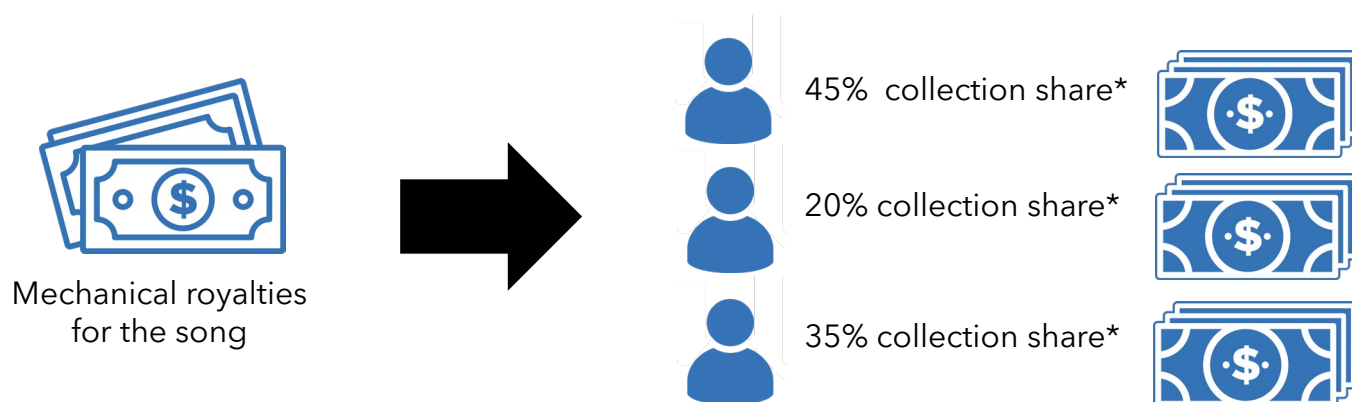
12. A play must be 30 seconds or more. If the recording itself is less than 30 seconds, then the play must be of the entire duration of the recording. For the full definition, see 37 CFR §385.2. Additionally, if the length of a recording is more than 5 minutes, each play that occurs is counted as more than 1 play. Note, this is the length of the entire recording, not how long the recording was played for. This is called an overtime adjustment, and you can find more information about it in the Statutory Royalty Rate Formula Tables on our website.

How Mechanical Royalties for Interactive Streams and Limited Downloads Are Calculated

ALLOCATE

Royalties to Each Collection Share

Allocate the mechanical royalties for each song based on the collection shares claimed by Members



*The collection shares used in this diagram are a hypothetical example. How the collection share is divided up between Members varies by song.



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Explanation of Statutory Rates for Digital Audio Mechanical Uses

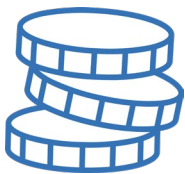
How Mechanical Royalties for
PERMANENT DOWNLOADS
Are Calculated

How Mechanical Royalties for Permanent Downloads Are Calculated

CALCULATE

Royalties for Each Song

Multiply the mechanical royalty amount per download by the number of downloads of the song in the month



Royalty amount per download
(see table below)



Total number of times a song is downloaded in the month



Mechanical royalties for the song

Rate Period		Royalty Amount per Download (whichever is greater)	
Phono I	2008-2012	\$0.091	\$0.0175 per minute of playing time or fraction of a minute of playing time
Phono II	2013-2017		
Phono III	2018-2022		
Phono IV	2023	\$0.12	\$0.0231 per minute of playing time or fraction of a minute of playing time
	2024	\$0.124	\$0.0239 per minute of playing time or fraction of a minute of playing time
	2025-2027	To Be Determined. Rates will be adjusted annually to reflect cost of living changes based on the Consumer Price Index for All Urban Consumers	

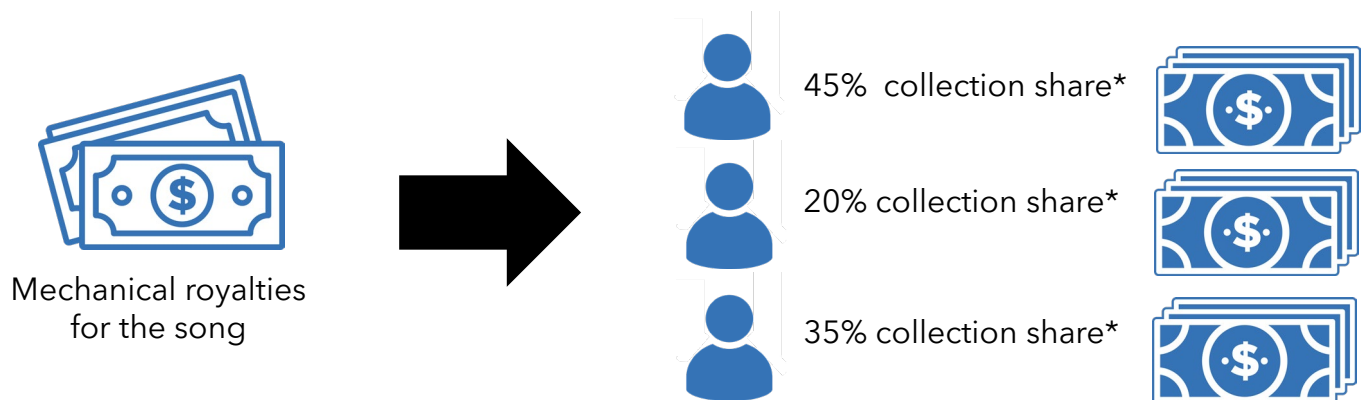
Calculation tip: If the length of a recording of the song is equal to or less than 5 minutes, the amount in column three above applies; if the length of the recording is more than 5 minutes, round up to the next whole minute and multiply the number of minutes by the amount in column four above.

How Mechanical Royalties for Permanent Downloads Are Calculated

ALLOCATE

Royalties to Each Collection Share

Allocate the mechanical royalties for each song based on the collection shares claimed by Members



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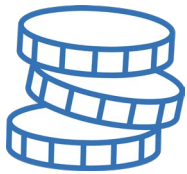
Explanation of Statutory Rates for Digital Audio Mechanical Uses

How Mechanical Royalties for
RINGTONES
Are Calculated

CALCULATE

Royalties for Each Song

Multiply the mechanical royalty amount per ringtone by the number of ringtones of the song in the month



Royalty amount per ringtone
(see table below)



Total number of times a song is sold as a ringtone in the month



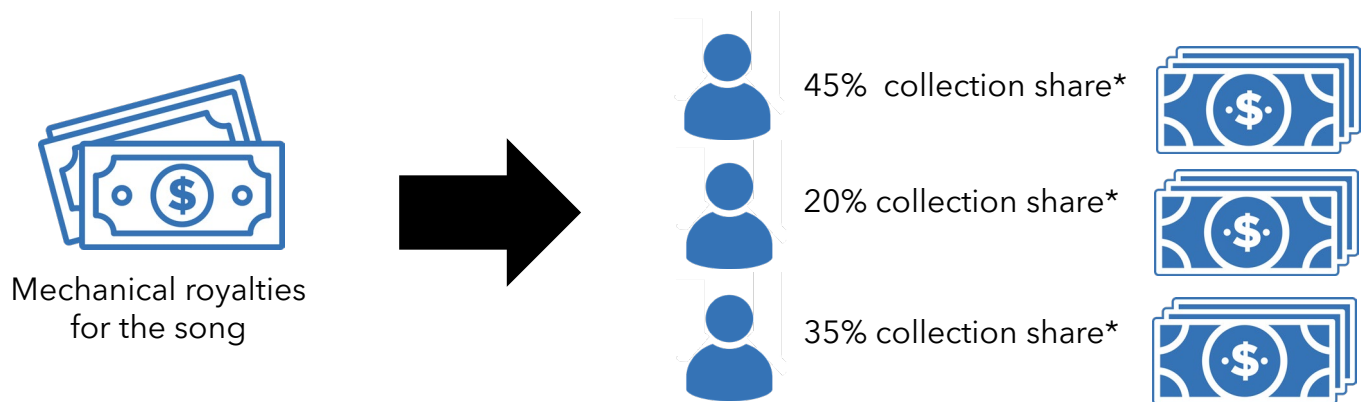
Mechanical royalties for the song

Rate Period		Royalty Amount per Ringtone
Phono I	2008-2012	\$0.24
Phono II	2013-2017	
Phono III	2018-2022	
Phono IV	2023-2027	

ALLOCATE

Royalties to Each Collection Share

Allocate the mechanical royalties for each song based on the collection shares claimed by Members



*The collection shares used in this diagram are a hypothetical example. How the collection share is divided up between Members varies by song.