

# Mod-chipping activities held not to infringe anti-circumvention provisions

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The High Court of Australia unanimously held in *Stevens v Kabushiki Kaisha Sony Computer Entertainment*<sup>1</sup> that a retailer of PlayStation games and consoles did not infringe the anti-circumvention provisions of Australian copyright law by “mod-chipping” the consoles. While aspects of the ruling dealing with anti-circumvention provisions may now have been overtaken by other developments, including compliance with obligations under the Australia-United States Free Trade Agreement (“AUSFTA”), this case remains significant. The High Court has indicated that modifying PlayStation consoles is permitted for the use of games purchased legitimately, whether intended for domestic or overseas markets. The decision also has implications for the film and music industry, as it suggests that it may be legal to mod-chip DVD players to play DVDs purchased overseas. More significantly, the Court’s statutory construction of the anti-circumvention provisions has indicated their belief that “paracopyright” provisions —*ie*, anti-circumvention and other access restrictions built into copyright law — should be construed narrowly, as these provisions reflect a compromise between owners and users of copyright works, and are not a simple concession to copyright holders.

## Facts

The dispute in this case involves Sony PlayStation games and the consoles designed and marketed for their use. PlayStation games are sold in CD-ROM format, and can be played using a television set via a Sony PlayStation console. Both the games and the console are designed for sale and use in one of three geographic markets: the United States; Europe/Australia/New Zealand; and

Japan/Asia. The products sold in each market are not interchangeable as sold. In particular, PlayStation games intended for use in the United States cannot be played on consoles sold in the Australian market. In addition, unauthorised (*ie*, pirated) copies of PlayStation games cannot be used on consoles for any region.

Sony uses a device to prevent the use of unauthorised copies of PlayStation games, which consists of both hardware (a “Boot ROM” chip installed in each console), and software (an access code track on each CD-ROM) components. In addition to preventing the use of pirated copies, this device also prevents the use of PlayStation games purchased legally, but intended for sale in regions other than that in which the console was sold.

Eddy Stevens, a Sydney retailer of PlayStation games and consoles, sold and installed modifying chips (commonly referred to as “mod-chips”) for PlayStation consoles manufactured for the Australian market. By mod-chipping the consoles, Stevens enabled users to play not only pirated copies of games, but games intended for sale in other markets (*ie*, the United States and Japan). He also sold unauthorised copies of PlayStation games. The case concerned his mod-chipping activities only.

## Decisions of the Federal Court

At first instance, Sony claimed that Stevens had contravened the anti-circumvention provisions of the *Copyright Act* 1968 (Cth) (the “Copyright Act”), had committed trade mark infringement, and had engaged in misleading and deceptive conduct under the *Fair Trading Act* 1987 (NSW). Sony succeeded on its

claim of trade mark infringement, but failed on the copyright and misleading and deceptive conduct claims.<sup>2</sup>

Relevantly, the copyright claim failed because Justice Sackville held that Sony’s device was not a “technological protection measure” (“TPM”) as defined in the Copyright Act. Accordingly, Stevens’ mod-chipping of the consoles did not fall within section 116A, which makes it illegal to make, sell, or distribute a circumvention device “capable of circumventing, or facilitating the circumvention” of a TPM. It was not disputed by either party that the mod-chips would have been “circumvention devices” if the Sony device was held to have been a TPM.

The definition of a TPM in section 10(1) is as follows:

“**technological protection measure** means a device or product, or a component incorporated into a process, that is designed, in the ordinary course of its operation, to prevent or inhibit the infringement of copyright in a work or other subject-matter by either or both of the following means:

- (a) by ensuring that access to the work or other subject matter is available solely by use of an access code or process (including decryption, unscrambling or other transformation of the work or other subject-matter) with the authority of the owner or exclusive licensee of the copyright;
- (b) through a copy control mechanism.”

Sony argued that the definition of a TPM should be read broadly, so as to include a device “designed, in the ordinary sense of its operation, to restrain, hinder or check the

infringement of copyright in a work". Justice Sackville had accepted that the Sony device did "deter or discourage those who would otherwise make, import or trade in unauthorised copies of PlayStation games", but held that this was not enough to fall within the definition.<sup>3</sup>

His Honour stated that the focus of the definition was on a "technological device or product that is designed to bring about a specified result (preventing or inhibiting the infringement of copyright in a work) by particular means", either by an access code (according to paragraph (a) of the definition) or a "copy control mechanism" (according to paragraph (b)). His Honour continued:

"The definition, so it seems to me, contemplates that but for the operation of the device or product, there would be no technological or perhaps mechanical barrier to a person gaining access to the copyright work, or making copies of the work after access has been gained, thereby putting himself or herself in a position to infringe copyright in the work. The definition is intended to be confined to devices or products that utilise technological processes or mechanisms to prevent or curtail specific actions in relation to a work, which actions would otherwise infringe or facilitate infringement of copyright in that work. In other words, a "technological protection measure", as defined, must be a device or product which utilises technological means to deny a person access to a copyright work, or which limits a person's capacity to make copies of a work to which access has been gained, and thereby "physically" prevents or inhibits the person from undertaking acts which, if carried out, would or might infringe copyright in the work. ... I do not think the definition is concerned with devices or products that do not, by their operations, prevent or curtail specific acts infringing or facilitating the infringement of copyright in a work, but merely have a general deterrent or discouraging effect on those who might be contemplating infringing copyright in a class of works, for example by making unlawful copies of a CD-ROM."<sup>4</sup>

Sony also advanced an argument that, even if a narrow construction of the definition was adopted, their device was still a TPM because it prevented the reproduction in RAM of unauthorised copies of the PlayStation games, which should either be construed as literary works or cinematograph films, under the Copyright Act. Sackville J rejected these arguments, on the basis that the copying to RAM was only temporary (being lost when power was switched off) and hence that there was no reproduction in "material form" as required for infringement under the Copyright Act.

On appeal, the Full Federal Court adopted the more general definition of TPM that Sackville J had rejected. Justice Lindgren (with whom Finkelstein J agreed on this point) found nothing in the statutory text to persuade him strongly to one construction or the other, but was persuaded by a detailed review of various extrinsic material that Parliament had intended a "broader approach" than adopted by Sackville J, and thus that the definition of TPM included an "inhibition" to copying, in the sense of "deterrence or discouragement of infringement, which results from a denial of access to, and therefore prevention of use of, a program copied in infringement of copyright".<sup>5</sup> The Full Federal Court rejected Sony's arguments that there had been reproduction of the games as literary works or cinematograph films on the same ground (lack of "material form") as Sackville J.

Sony appealed only the finding of non-infringement of copyright, and succeeded in the Full Federal Court, which held that Sony's device was indeed a TPM.<sup>6</sup> Stevens was granted special leave to appeal to the High Court on this point, and succeeded on appeal.

### **Decision of the High Court**

Before the High Court, Stevens urged restoration of Sackville J's approach to the definition of TPM, while Sony argued that the Full Federal Court's approach was to be preferred. Sony also pressed the two additional grounds in the alternative regarding temporary copying to RAM on which

it had failed twice. The High Court (Gleeson CJ, and Gummow, Hayne, and Heydon JJ; McHugh J and Kirby J delivering separate opinions) unanimously restored Sackville J's interpretation of the definition of TPM, and rejected Sony's contentions regarding temporary copying.

### **The definition of a TPM**

The High Court rejected the Full Federal Court's "broader" approach to the definition of a TPM. Observing "the fundamental notion" that "copyright comprises the exclusive right to do any one or more of 'acts' primarily identified in ss 31 and 85-88" of the Copyright Act, the Court held that the wording of section 116A focused attention on what acts the device said to be a TPM prevented. These acts had to be things proscribed by copyright, such as reproducing a copy of a computer program or other protected work. The Court held that the Sony device was not a TPM, because it did not operate so as to prevent a user infringing copyright in such a manner:

"The use of Mr Stevens' mod chip in order to circumvent the protections provided by (a) the access code on a CD-ROM in which a PlayStation game is stored and (b) the boot ROM device contained within the PlayStation console cannot be said to be for the 'purpose' of reproducing a computer game within the sense of s 31 of the Act. Any such reproduction will already have been made through the ordinary process of 'burning' the CD-ROM. The mod chip is utilised for a different purpose, namely to access the reproduced computer program and thereafter visually to apprehend the result of the exercise of the functions of the program."<sup>7</sup>

That is, the mod chip prevented the *playing* of discs, which was not a right encompassed by Sony's copyright; it did not affect any copying of the disc being played, which is the point at which copyright infringement may have occurred.

The High Court adduced three additional reasons of statutory construction to reject the adoption of any broader approach to the definition, whereby it would catch devices that

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did not directly prevent infringement, but which “deterred” or inhibited infringement more broadly. The first was to take into account, when choosing between a relatively broad and a relatively narrow construction of legislation, its penal character. As the act of selling a circumvention device could expose a person to imprisonment for up to five years, the Court cautioned against adopting “any loose, albeit ‘practical’, construction” of the relevant part of the Act.

The second was “the true construction of the definition of ‘technological protection measure’ must be one which catches devices which prevent infringement. The Sony device does not prevent infringement. Nor do many of the devices falling within the definition advanced by Sony. The Sony device and devices like it prevent access only after any infringement has taken place.”

The third consideration was that “in construing a definition which focuses on a device designed to prevent or inhibit the infringement of copyright, it is important to avoid an overbroad construction which would extend the copyright monopoly rather than match it”. The Court identified as a defect in the Full Federal Court’s construction that its effect “is to extend the copyright monopoly by including within the definition not only technological protection measures which stop the infringement of copyright, but also devices which prevent the carrying out of conduct which does not infringe copyright and is not otherwise unlawful. One example of that conduct is playing in Australia a program lawfully acquired in the United States. It was common ground in the courts below and in argument in this Court that this act would not of itself have been an infringement.”

### Paracopyright and construction of the Copyright Act

In connection with this third consideration, the Court also considered the balance struck in the relevant copyright legislation, which is complicated by the biases brought by different interest groups, namely copyright holders and the users of copyright-protected works. Section 116A of the Copyright Act was

inserted by the *Copyright Amendment (Digital Agenda) Act 2000* (Cth) (the “Digital Agenda Act”).

The Digital Agenda Act introduced what are referred to as “paracopyright” provisions into Australian copyright law, namely restrictions on copyright material separate from the traditional exclusive rights of reproduction, publication, adaptation, public performance, and communication.<sup>8</sup> Provisions such as section 116A do not relate to acts subsisting in copyright, but instead relate to gaining access to the copyright material.<sup>9</sup> Such access restrictions are something beyond traditional copyright restrictions, which are fundamentally concerned with the *uses* of the works in question, rather than *access* to them.

The Court observed that the “paracopyright” provisions of the Copyright Act reflect a compromise between copyright owners and users. In the plurality opinion, Gleeson CJ, Gummow, Hayne, and Heydon JJ noted that neither the statement of objects contained in section 3 of the Digital Agenda Act, nor available extrinsic materials were found to elucidate a “single purpose” for the definition of a technological protection measure. Accordingly, in noting that the definition of technological protection measure adopted was a compromise, their Honours state:

“The result is that in the present case to fix upon one “purpose” and then bend the terms of the definition to that end risks “picking a winner” where the legislature has stayed its hand from doing so. In the selection of a sole or dominant “purpose”, there is a risk of unintended consequences, particularly where, as here, the substratum of the legislation is constantly changing technologies.”<sup>10</sup>

### Reproduction in RAM arguments

The High Court also rejected the two grounds upon which Sony had asserted infringement based on temporary reproduction in RAM. The Court affirmed that Sony’s argument as to reproduction of the program failed because the reproduction was

not in a “material form” as required by section 21(1A) of the Copyright Act.<sup>11</sup>

The Court also affirmed that Sony’s argument characterising the PlayStation game as a cinematograph film<sup>12</sup> also failed, because an insufficient amount of the images and sounds constituting the cinematograph film were embodied in the console’s RAM at any given time to satisfy the requirement of substantiality.<sup>13</sup>

### Implications

This decision is the first by the High Court on the anti-circumvention provisions introduced by the Digital Agenda Act. However, it should be noted that these laws will change as a result of the AUSFTA, which requires changes to Australian copyright law to bring it closer in line with the United States.

Regardless of any pending legislative changes, this decision has important implications. The approach taken by the High Court in interpreting the anti-circumvention provisions is important, as it supports a balanced interpretation of the legislation, rather than one favouring either copyright holders or users.

Perhaps the most interesting result is that the Court seems to have given implicit support for consumers working around the artificial commercial restrictions imposed by regional coding systems. This is because the “region control” mechanism used in DVD players works similarly to the device in the PlayStation: it does not prevent *copying* of a disc, but merely the *playing* of a disc that has been bought in a different region from that of the player. This suggests that the region control device will not be considered a TPM, as it does directly prevent infringement, so that bypassing it does not fall foul of section 116A.

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1 [2005] HCA 58 (6 October 2005).

2 *Kabushiki Kaisha Sony Computer Entertainment v Stevens* (2002) 200 ALR 55 at 68-70 (Federal Court of Australia) (Sackville J).

3 (2002) 200 ALR 55 at 79.

4 (2002) 200 ALR 55 at 81.

5 (2003) 132 FCR 31 at 69-70.

6 *Kabushiki Kaisha Sony Computer Entertainment v Stevens* (2003) 132 FCR 31 (Full Federal Court) (French, Lindgren, and Finkelstein JJ).

7 [2005] HCA 85 at [43].

8 Copyright Act, section 31.

9 A similar provision exists in the copyright law of the United States at 17 USC §1201. It should be noted that section 116A of the Copyright Act is less protective of copyright than its American counterpart, as has been noted by the High Court itself: 2005 HCA 58, [207]-[208]

10 [2005] HCA 58, [33]-[34].

11 [2005] HCA 58, [62]-[79].

12 [2005] HCA 58, [87]; Copyright Act 1968 (Cth), sections 10(1), 21(6), 86(a).

13 [2005] HCA 58, [98].

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## Can a website be a financial services product or financial services advice?

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### Introduction

This is a discussion of the recent Supreme Court of Queensland (**the Court**) judgement in *Australian Securities and Investment Commission (ASIC) v Online Traders Advantage Incorporated<sup>1</sup>* (**Online**). The judgement was given on 26 October 2005 by Moynihan J.

### Background

Online (incorporated in the United States (US)) is a wholly owned subsidiary of Ziasun Technologies Inc. (**Ziasun**), which is in turn a wholly owned subsidiary of INVESTools Inc. (**INVESTools**). Both Ziasun and INVESTools are US registered foreign entities. Online is the main company through which INVESTools operates. As at 30 June 2004, Online accounted for 94% of the total revenue of INVESTools.

The major income generator for INVESTools is its website [www.investortoolbox.com.au](http://www.investortoolbox.com.au) (**the website**). The website provides access to information about US listed companies and allows subscribers to analyse information using the tools provided on the website.

### Relief sought

ASIC sought 15 declarations and other relief against Online regarding both

the use and application of the website, and Online's conduct at a series of seminars aimed at providing educational services for investors (**seminars**). The relief sought by ASIC covered a broad range of contraventions of both the *Corporations Act 2001* (Cth) (**the Act**) and the *Australian Securities and Investment Act 2001* (Cth) (**the ASIC Act**) including claims of misleading and deceptive conduct, claims that Online provided recommendations without an appropriate licence and an application for a declaration that Online had contravened section 911A of the Act on the basis that the seminars provided financial product advice, and dealt with a financial product, namely the website, without the required licences. The only claims that were made out were the claims in relation to the provision of advice as regards the website. These claims provide the most salient discussion for our purposes.

### The Facts

Online has been carrying on business in Australia since 1999. On 9 June 2004, Online was granted a licence to carry on a financial services business providing financial product advice for financial products that are securities to retail clients. This licence was granted under section 913B of the Act.

As mentioned above, the major issue in these proceedings was Online's

conduct at several seminars and the function and content of Online's website.

The relevant seminars were held by Online at the Brisbane Convention Centre on 1 July 2004, and at the Melbourne Convention Centre on 2 July 2004. The seminars were advertised nationwide on various major radio stations and attracted attendance of 970 and 720 people respectively. The seminars were free.

The Court found that the underlying purpose of the free seminars was to sell subscriptions to the website and sign up subscribers to extra workshops which would teach subscribers how to use the website effectively. The seminars were led by Phillip Bradley Town (**Town**), who encouraged attendees to invest in the US securities market using the tools provided by the website. Part of the seminars was dedicated to using the website to identify particular stocks on the US market that could be traded with advantage.

### The website – financial advice and a financial product

The Court held that the functions and application of the website were central to the case against Online. In summary, the website provided subscribers with the ability to: