

The JFTC reviewed the proposed M&A operations between Z Holdings Corporation and LINE Corporation

August 4th, 2020
Japan Fair Trade Commission

Receiving notifications regarding the proposed M&A operations between Z Holdings Corporation (JCN4010401039979) (hereinafter referred to as “ZHD”; a group of combined companies held by the ultimate parent company SoftBank Group Corporation (JCN1010401056795), hereinafter referred to as “SBK Group”) and LINE Corporation (JCN7010701019678) (hereinafter referred to as “LINE”; a group of combined companies held by the ultimate parent company NAVER Corporation (JCN2700150071768), hereinafter referred to as “NAVER Group”; and “SBK Group” and “NAVER Group” hereinafter collectively referred to as “the parties”), the Japan Fair Trade Commission (hereinafter referred to as the “JFTC”) reviewed the transaction and reached the conclusion that, given the remedial measures proposed by the parties, competition in any particular fields of trade is unlikely to be substantially restrained. Accordingly, the JFTC has notified the parties that it will not issue a cease and desist order, resulting in the completion of its review.

※JCN:Japan Corporate Number

I. Overview of the transaction

The parties plan the M&A operations between ZHD and LINE by the acquisition of shares and the merger, etc.

II. Reviewing Process

- Receipt of notifications regarding the acquisition of shares and the merger on July 14th, 2020 (the start of the primary review)
- Clearance notification on August 4th, 2020

III. Conclusion

As a result of its review, based on the premise that the parties will implement their proposed remedial measures, the JFTC concluded that the transaction would not substantially restrain competition in any particular fields of trade.

Concerning the result of investigation on M&A operations between
Z Holdings Corporation and LINE Corporation

Part 1 The Parties

Z Holdings Corporation is a company that performs business management of its subsidiaries, and one its subsidiary companies, Yahoo Japan Corporation, is a company that primarily runs E-commerce business and others. LINE Corporation is a company that primarily runs an advertising business, etc. Both companies are enterprises running so-called digital platform businesses that operate online shopping malls and/or provide distribution services of contents (such as electronic books). The words and terms listed in the left column of the table below are hereinafter referred to as those listed in the right column.

Left Column	Right Column
SoftBank Corp.	SoftBank
Z Holdings Corporation	ZHD
A group of companies of which joint relationships with SoftBank Group Corp., the ultimate parent company of SoftBank Corp., have already been established	SBK/ZHD Group
A group of companies which have already established joint relationships under ZHD as their ultimate parent company	ZHD Group
A group of companies, which have already established joint relationships with SoftBank Group Corp., not including those belong to the ZHD Group	SBK Group
NAVER Corporation	NAVER
LINE Corporation	LINE
A group of companies which have already established joint relationships with NAVER	NAVER/LINE Group
A group of companies which have already established joint relationships under LINE Corporation as their ultimate parent company	LINE Group
A group of companies, which have already established joint relationships with NAVER, not including those belong to the LINE Group	NAVER Group
Aggregation of the SBK/ZHD Group and the NAVER/LINE Group	the Parties

Part 2 Outline of this case and applicable provisions

This case is a plan of the Parties for M&A operations between ZHD and LINE (hereinafter referred to as “the conduct of this case”) through acquisition of shares, etc.

The applicable provisions are Articles 10 and 15 of the Antimonopoly Act.

Part 3 Sequence of events, etc.

1 Sequence of events

ZHD and LINE publicly announced the plan of the conduct of this case on November 18, 2019 and, thereafter, voluntarily submitted their written opinions and materials, which explained their consideration that the conduct of this case would not substantially restrain competition, to the JFTC in series. In response to requests from the Parties, the Commission had meetings with the Parties several times to exchange views.

In addition to careful examinations on such written opinions and materials, the Commission conducted interviews with the competitors, and also carefully examined materials and minutes of various meetings such as board meetings and management meetings, etc., which the Commission requested the Parties to submit, as well as internal data such as e-mail exchange of executive officers and employees.

Thereafter, the Parties submitted a written notification of the plan regarding the conduct of this case on July 14, 2020 based on the provisions of the Antimonopoly Act. Therefore, the Commission accepted the notification and started the preliminary investigation. The Commission proceeded with the investigation on possible influence from the conduct of this case on the competition based on not only the above notification of the plan, opinions and materials submitted by the Parties but also the results of interviews with competitors, etc., economic analysis and so on.

2 Overview of the investigation

Among the fields of trade in which the Parties is involved as a competing enterprise or a trader, the investigation by the JFTC was focused on the fields of “news distribution service”, “advertisement-related business” and “code-based payment service” that were considered to be sensitive to the conduct of this case¹.

¹ As for the fields of trade other than “news distribution service”, “advertisement-related business” and “code-based payment service”, it was determined that the conduct of this case would not result in imposing any substantial restraint on competition in any of such fields of trade in view of the fact that a certain competitive pressure by competitors was observed in such other fields of trade.

As will be mentioned later in Parts 4 and 5, the JFTC concluded that the conduct of this case would not substantially restrain competition in the fields of news distribution service and advertisement-related business.

Regarding code-based payment services, as will be mentioned later in Part 6, based on the premise that parties will implement their proposed the remedial measures, the JFTC concluded that the conduct of this case would not substantially restrain competition.

Part 4 News Distribution Service

1 Outline

News distribution service typically means distribution services of news articles to consumers through the internet by news media such as newspaper publishing companies (hereinafter referred to as “Media”) or by enterprises that get news articles from the Media. There are two major types of news distribution service. One is the distribution to users (consumers) who browse news mainly on PCs, and another is the distribution to users (consumers) who browse news mainly on mobile devices such as smartphones (hereinafter referred to as “News Distribution to Mobile Devices”). As will be mentioned later in (3), the business field, in which the Parties are competing, is mainly the News Distribution to Mobile Devices. Therefore, the investigation hereunder is focused on the News Distribution to Mobile Devices.

There are two news distribution methods to mobile devices. One is distribution through website (namely, consumers activate web browser on mobile devices to access portal site, etc. on which they browse news. The same shall apply hereinafter) and another is distribution by using a mobile app (namely, consumers browse news on mobile devices by activating dedicated apps, etc. The same shall apply hereinafter).

The enterprises that run business of News Distribution to Mobile Devices (hereinafter this business is referred to simply as “News Distribution Service”) provide consumers with the News Distribution Service on their own website or by using mobile apps on chargeable basis or free of charge (hereinafter, the News Distribution Service on chargeable basis is referred to as “Chargeable News Distribution Service” and the enterprise that provides such services is referred to as “Chargeable News Distribution Service Provider”, and the News Distribution Service free of charge is referred to as “Free News Distribution Service” and the enterprise that provides such free services is referred to as “Free News Distribution Service Provider”).

(1) Chargeable News Distribution Service

The Chargeable News Distribution Service is typically operated by the media themselves who produce the news articles. The Chargeable News Distribution Service Provider distributes the news articles produced by itself to consumers who have been registered as paid subscribers through its own website or on mobile apps.

The Chargeable News Distribution Service Provider receives a certain amount of subscription fee from consumers registered as paid subscribers, and also gains advertising revenue by running advertisements on their website or mobile apps.

There are also cases where the Chargeable News Distribution Service Providers offer free news distribution to a certain extent, and consumers may browse the news free of charge to such an extent.

(2) Free News Distribution Service

Free News Distribution Service Providers typically do not produce news articles by themselves but get news articles from the Media (purchase news articles) and distribute them to consumers on their websites or mobile apps.

Free News Distribution Service Providers do not charge any subscription fee to consumers, and their primary source of income is an advertising revenue by running advertisements on their websites or mobile apps.

When Free News Distribution Service Providers purchase news articles from the Media, the payment methods of the price of news articles to the Media are typically made by one of the following three or, any combination thereof in some cases depending on the contract conditions:

- (i) Yearly or monthly payment of a fixed amount.
- (ii) A certain portion of advertisement revenue which the Free News Distribution Service Provider receives is paid to the Media (revenue sharing).
- (iii) An arrangement to increase advertisement revenue of the Media (who are the source of the news article) by linking users (traffic-back) with the websites or mobile apps of the Media via websites or mobile apps of the Free News Distribution Service Provider.

(3) News Distribution Service provided by the Parties

SBK/ZHD Group and LINE Group are operating News Distribution Services mainly under the service names of “Yahoo! News” and “LINE NEWS”, respectively. The Parties distributes news articles to consumers free of charge in both cases and the major source of income is an advertisement revenue.

Regarding such Free News Distribution Services operated by the Parties, “Yahoo! News” is distributed on both websites and mobile apps and “LINE NEWS” is distributed on mobile apps only.

2 Particular Field of Trade

(1) Service range

As mentioned in the above 1, the News Distribution Services have two operating styles, namely, the Free News Distribution Service and the Chargeable News Distribution Service. Also there are two distribution methods, namely, distribution on website and on mobile apps.

In the following paragraphs, substitutability between the Free News Distribution Service and the Chargeable News Distribution Service and substitutability between distribution on websites and on mobile apps are investigated respectively.

A Substitutability between the Free News Distribution Service and the Chargeable News Distribution Service

(a) Demand substitutability

Users of the Free News Distribution Service may browse news articles free of charge and are basically able to browse news articles produced by various Media.

On the other hand, when users use websites or mobile apps operated by Chargeable News Distribution Service Providers, the users may browse news articles free of charge to a certain extent such as a certain numbers of articles per month. However, if any user wants to browse any news article on the said website or mobile app beyond such an extent, the user is required to pay a certain amount of subscription fee. Another difference between the Chargeable and Free News Distribution Services is that the subscription fee allows the user to subscribe only news articles produced by the said Chargeable News Distribution Service Provider.

Therefore, it seems that the users are using both services differently for different purposes to a certain extent. Namely, it is considered that users are not choosing either service as an alternative of the other service. Thus, the substitutability between “Chargeable News Distribution Service” and “Free News Distribution Service” is considered to be limited.

(b) Supply substitutability

When a Free News Distribution Service Provider (or a Chargeable News Distribution Service Provider) changes its style of services to a chargeable distribution service (or free distribution service), it involves substantial changes in the business model. In view of the fact that Chargeable News Distribution Service Providers, in principle, distribute news articles produced by themselves, it is considered difficult particularly for Free News Distribution Service Providers, who do not produce news articles on their own in the most cases, to changes their style of services to Chargeable News Distribution Service without assuming substantial amount of additional costs and risks.

As mentioned in the above (1) of 1, Chargeable News Distribution Service Providers also provide free distribution services of news articles with a certain limitation. However, if they change their style of services to an absolute free distribution of all news articles, it involves substantial changes in the business model. Therefore, it is considered difficult to change the business style to Free News Distribution Service without assuming substantial amount of costs and risks.

Therefore, no supply substitutability is observed between the Free News Distribution Service and the Chargeable News Distribution Service.

(c) Summary

Based on the above, “Free News Distribution Service” and “Chargeable News Distribution Service” have been defined as different service range.

B Demand substitutability between Distribution on Websites and Distribution on Mobile Apps

There are two news distribution methods, one is distribution on website and another is distribution on mobile app. Users can browse news articles anytime through website from mobile devices such as smart phones. When users browse news articles through dedicated news distribution app, it is also effortless once such a news distribution app has been installed on the user’s mobile device.

For that reason, the demand substitutability exists for users between distribution on websites and distribution on mobile apps.

Therefore, service range of this case is not distinguishable between “Distribution on Websites” and “Distribution on Mobile Apps”.

C Based on the above, the service range of this case has been defined as “Free News Distribution Service”.

In the meantime, in view of the fact that “Chargeable News Distribution Service” also provides free distribution of some portion of news articles, the said portion of the service has been decided to be assessed as competitive pressure from adjacent markets.

(2) Geographic range

Since the Free News Distribution Service is a business to distribute news articles through internet, Free News Distribution Service Providers are able to distribute news articles in all regions of Japan irrespective of their or users’ location, and users are also able to enjoy the benefit of such free services in all regions of Japan without any geographical limitation. Therefore, the geographic range of this case has been defined as “all Regions of Japan”.

3 Relevance to the safe-harbor criteria in particular field of trade

Both members of the Parties are running businesses of Free News Distribution Service and are in competitive relationship each other. Therefore, this case falls under the category of horizontal business combination.

Since the exact values of market share, etc. of Free News Distribution Services provided by the respective members of the Parties are unknown yet, it will be investigated later in 4 whether the conduct of this case would substantially restrain competition or not, based on an assumption that the safe-harbor criteria of horizontal business combination is not met.

4 Examination on substantial restraint on competition

(1) Positions, etc. of the Parties and competitors

The number of users of respective News Distribution Services of the Parties is considered to account for as many as 60 to 75% of the number of monthly users of news distribution services (users that use news distribution services through mobile devices at least once a month. The same shall apply hereinafter) in the domestic market in Japan. Namely, they are in a very strong position in the market of such services, in terms of utilization ratio of News Distribution Service. In the meantime, there are also more than one influential competitors that have 10 to 20% of the monthly users.

(2) Entry

Any Free News Distribution Service Providers, including competitors to the Parties, may distribute the same news articles as the ones distributed by the Parties, as far as they can get them from the Media. Also, anyone can start Free News Distribution Service by developing a mobile app and releasing it on app store. Although it may be necessary to have know-how to secure a certain number of users to gain income such as advertisement revenue, there is no specific reason that makes the entry be considered very difficult. Therefore, it is considered that the entry is relatively easy.

(3) Competitive pressure from users

Any Free News Distribution Services (provided by Free News Distribution Service Providers) enable users to freely browse many news articles free of charge. And in case of news articles sourced from the same news Media, the contents of the distributed news articles will not have any substantial difference among the providers thereof. In addition, if any user as a consumer wants to switch to other Free News Distribution Service, such a user incurs almost no cost for switching but is only required to install a new mobile app, etc. Thus, the number of users that use more than one Free News Distribution Services concurrently (so-called multi-homing) is not small. Because of this, it is considered that it is easy for users as consumers to change Free News Distribution Service that they are using and, therefore, the competitive pressure from users is also observed.

(4) Competitive pressure from adjacent markets

Under circumstances where a free distribution service of news articles is available to a certain extent in the framework of Chargeable News Distribution Services, if a consumer especially wants to search some particular news article, it is considered possible for such a consumer to gain the same level of benefit as that from Free News Distribution Services by browsing such news articles within the said free portion of the Chargeable News Distribution Services. Actually, there are data saying that utilization ratio of free news sites provided by Chargeable News Distribution Services Providers accounts for approximately 10% of monthly users of news distribution services. Namely, it is safe to say that the presence of Chargeable News Distribution Services Providers is recognizable as competitive pressure from adjacent markets to a certain extent.

- (5) Concerning competition-related concerns expressed during interviews with third parties

The interviews revealed the presence of an opinion that, in view of the fact that the availability of news articles from major Media was critical for Free News Distribution Service Providers to acquire users, if the conduct of this case would help the Parties attain stronger position in the market and would eventually create circumstances where major Media would stop providing news articles to competitors (other Free News Distribution Service Providers) it would result in a possibility for exclusion of competitors or new entrants.

In this relation, if we assume a situation where major Media do not make any transaction with other Free News Distribution Service Providers, the following can be considered as possible scenarios:

- (i) If the position of the Parties is expected to become too strong in the Free News Distribution Service market, transactions with Free News Distribution Service Providers, of which utilization ratio is relatively low compared with the Parties, will be stopped because of unfavorable cost-benefit performance in terms of the time and effort required for digital processing of news articles, which are differently arranged for each Free News Distribution Service Provider.
- (ii) The Parties exerts pressure on the Media, supplier of news articles, to stop providing news articles to other Free News Distribution Service Providers.

However, if the following factors are taken into consideration, it is safe to say that such a concern would not become a reality.

A Existence of many Media that distribute news articles

According to the result of interviews, they say that availability of news articles from major Media is important for Free News Distribution Service Providers in terms of getting users. Therefore, in case where the number of the Media (especially the number of major Media) that are dealing with Free News Distribution Service Providers is limited, probability of situation where they will have difficulties in finding alternative supplier will increase, once any circumstances such as the above (i) or (ii) should break out. Then, such a situation is considered to result in an increase of the risk of exclusion of other Free News Distribution Service Providers or new entrants. However, the number of Media, from whom the members of the Parties are purchasing news articles, reaches as many as a few hundreds, such as newspaper publishing companies, sport journal publishers, TV broadcasters and book publishing companies. In addition, as a result of checking with major Media (among media

that supply news articles to members of the Parties, the large ones in terms of the amount of monetary value of news articles supplied), it neither seemed that the source of news articles was concentrated to any particular Media nor that purchase amount of news articles from any particular Media was prominently large. The interview clarified that the other competitors were also put in the same situations, namely, there were quite a number of Media that were supplying news articles to Free News Distribution Service Providers compared to the number of such Media for the Parties.

B The fact that major Media are currently dealing with many Free News Distribution Service Providers

Furthermore, according to the result of interviews with major Media, regarding the concern on the above (i), voice of the majority said that additional costs incurred by the supply of news articles to multiple Free News Distribution Service Providers were not substantial, and, therefore, such an increase in additional costs would not result in discontinuation of transactions with other Free News Distribution Service Providers. As a matter of fact, all of the major Media, with whom interviews had been conducted, were supplying news articles not only to the Parties but also to many other Free News Distribution Service Providers.

Based on the above, it can be considered that, for the Media that supply news articles, there is only a small possibility for discontinuation of supply of news articles to Free News Distribution Service Providers other than the Parties because of additional costs for the time and effort required for the preparation of news articles.

C The fact that the Parties does not currently impose any pressure on the Media and the fact that they are saying that they would not respond even if they are so requested

In addition, according to the result of interviews with major Media regarding the concern of the above (ii), they said that they had never been imposed any pressure by the Parties to suspend the supply of news articles to other Free News Distribution Service Providers. The voice of majority also said that they had no such concern and would not respond even if they should receive such a request.

5 Summary

Based on the above, the JFTC concluded that the conduct of this case would not substantially restrain competition in the Free News Distribution Service through any unilateral conduct or coordinated conduct of the Parties.

Part 5 Advertisement-related businesses

1 Outline

(1) Outline of advertisement-related businesses

Advertising businesses means businesses of media companies², who own advertising media such as TV, newspapers/magazines, internet services (portal site, video-sharing site, social networking service (hereinafter referred to as “SNS”) and blog), to sell advertising space displayed on their own advertising media to advertising clients or advertising agencies.

Advertisement put on internet (hereinafter referred to as “Digital Advertisement”) has large classification of “Search Advertising³”, “Display Advertising⁴ (Operation type⁵)” and “Display Advertising (Reserved type⁶)⁷” and others depending on method and form of display of the advertisement. Among advertisement services on internet, there also exists a method to send messages or e-mail directly to individual consumers. The LINE Group has an advertising service named “Account Advertisement”, where an advertising client sets up an official account which will then be registered as “Friend” in the network of “LINE”, and the Account Advertisement sends direct messages (such as the latest information on the business of advertising client, coupons and information on sales campaign) to such accounts. The revenue from “Account Advertisement” constitutes the major portion of advertisement-related sales of the LINE Group.

² “Media Company” means an enterprise that runs advertisement by configuring advertising spaces on advertising media such as TV, newspapers/magazines and internet services and by selling such advertising spaces to advertising clients and/or advertising agencies.

³ “Search Advertising” means an advertisement having a relation to the keyword that appears on the search result screen together with the search result whenever the keyword registered beforehand by advertising client/advertising intermediation is entered into the search engine.

⁴ “Display Advertising” means any advertisement, other than the Search advertising, which appears in some section of the screen when a consumer browse websites or use apps on PC, smartphone or feature phone, etc. (There are several types such as video advertisement, banner advertisement and text advertisement, etc.).

⁵ “Display Advertising (Operation type)” is one form of display advertising which is displayed only for targeted consumers based on attributes of the consumer (sex, resident area, interests and concerns, etc.).

⁶ “Display Advertising (Reserved type)” is one form of display advertising which is displayed for unspecified consumers by exclusively reserving an advertising space under certain conditions such as the period or time slot.

⁷ “Display Advertising (Reserved type)” also has a type that is displayed only for a certain type of users namely, this type has a sort of a functionality of “targeting”. To the contrary, “Display Advertising (Operation type)” also has a type that does not have the functionality of “targeting”.

Such an advertisement distribution method as the above provides different advantages from those of conventional “Search Advertising”, “Display Advertising (Operation type)” and “Display Advertising (Reserved type)”. Examples of such advantages are that consumers’ registering their names as “Friend” may make themselves feel proactively interested in the advertisement of such a company, and that advertisement can be distributed directly to consumers by utilizing the account. Based on the fact that such features are similar to those of advertisement by e-mail, advertisements distributed directly to individual consumers in the form of messages or e-mail such as the above are hereinafter referred to as “Message-type Advertising”.

(2) Outline of intermediation service of digital advertisement

Intermediation service of digital advertisement means intermediation service between an advertising client/advertising agency and a media company for the sales of digital advertising space. This intermediation service, of which main focus is put on Display Advertising (Operation type), is offered to both advertising clients/advertising agencies and media companies, and provides various advertising technology services⁸ as a single independent service or in combination with multiple services.

The Parties and some of major Media offer services by which they can independently complete the intermediation service between an advertising client/advertising agency and a media company by combining multiple advertising technology services, basically as a service for the purpose of placing advertisement in its (the media company’s) own digital advertising space (such services are hereinafter referred to as “Intermediation Service of Specific Digital Advertisement”). In comparison with the above, other intermediation services of digital advertisement are basically to undertake a part of intermediation services between an advertising client/advertising agency and a media company, and are often completed in combination with digital advertisement intermediation services provided by multiple enterprises. In addition, there are some enterprises of the Intermediation Service of Specific Digital Advertisement that provide intermediation services only for their own digital advertising space by using their own Intermediation Service of Specific Digital Advertisement. In such a case, it will result in a situation where other enterprises providing intermediation service of digital advertisement will have difficulties in providing intermediation services for the said digital advertising space.

⁸ There are various services such as Ad Network, Demand Side Platform (DSP) and Supply Side Platform (SSP).

(3) Services provided by the Parties

A Digital advertising business

The ZHD Group is selling advertising spaces configured on portal sites such as “Yahoo! Japan” and various contents media such as “Yahoo! News” and “Yahoo! Weather/Disaster” and the SBK Group is selling advertising spaces configured on portal sites, etc. such as “ITmedia” of ITmedia Inc. to advertising clients/advertising agencies. In addition, the LINE Group is selling advertising spaces configured on messenger apps named “LINE”, etc. to advertising clients/advertising agencies.

In the meantime, the Parties does not run advertising businesses such as TV advertisement and newspaper/magazine advertisement.

B Intermediation Service of Specific Digital Advertisement

All of the ZHD Group, the SBK Group and the LINE Group provide the Intermediation Service of Specific Digital Advertisement to both media companies and advertising clients/advertising agencies.

2 Particular field of trade

(1) Advertising business

A Service range

(a) Substitutability between “Digital Advertising Business” and “Advertising Business other than Digital Advertising Business (advertising business on TV and newspaper/magazine, etc.)”

a Demand substitutability

According to the result of interviews with advertising clients/advertising agents as users, it was expressed that digital advertisement was different compared to advertisement other than digital advertisement (advertisement on TV and newspaper/magazine, etc.) in terms of ease of targeting based on user information and search keywords and availability of measurement of frequency of appearance of advertisement on consumers’ screens, number of consumers’ clicking the advertisement and number of contracts made by consumers (conversion). If such a situation is taken into account, it can be considered that advertising clients/advertising agents appreciate “digital advertisement” to have different use and purpose from those of “other advertisement on TV and newspaper/magazine, etc.” and are using them differently to a certain extent.

Therefore, the demand substitutability between digital advertising business and advertising business other than digital advertising business (advertising business on TV and newspaper/magazine, etc.) is limited.

b Supply substitutability

Media companies as supplier are different each other in types of enterprises depending on the types of respective advertising media, such as TV advertising spaces are sold by TV broadcasting enterprises and newspaper advertising spaces are sold by newspaper publishing enterprises. Although there are some enterprises that have multiple advertising media, it is difficult for an enterprise, which mainly runs business of either digital advertisement or advertisement other than digital advertisement, to shift their business to the other side without incurring additional cost and risk associated with substantial changes in the business model required for such a shift.

Therefore, no supply substitutability is observed between “Digital Advertising Business” and “Advertising Business other than Digital Advertising Business (advertising business on TV and newspaper/magazine, etc.)”.

c Summary

Based on the above, “Digital Advertising Business” and “Advertising Business other than Digital Advertising Business (advertising business on TV and newspaper/magazine, etc.)” have been defined as different scopes of services in this case.

(b) Substitutability between “Search Advertising Business” and “Digital Advertising Business other than Search Advertising (Display Advertising (Operation Type) Business, Display Advertising (Reserved Type) Business and Message-type Advertising Business)”

a Demand substitutability

As mentioned in the above (1) of 1, the Search Advertising is an advertisement displayed on the screen of search result when consumers search a particular keyword on search engine. It has been learned in interviews with advertising clients/advertising agents as users that such consumers, who originally had an interest in the search result, are more likely to pay attention to the advertisement displayed on the search result screen and have more tendency to purchase the goods or services

advertised therein, and that the Search Advertising is used to introduce goods or services that are in line with the interest of consumers.

On the other hand, regarding non-Search digital advertisement (hereinafter referred to as “Non-Search Advertising”), which represents Display Advertising (Operation type), Display Advertising (Reserved type) and Message-type Advertising, the above interviews with advertising clients/advertising agents as users indicated as follows. Namely, there are both cases where consumers look at the display on the screen with a specific interest therein, and where they passively see the display with no special reason. Therefore, they use the Non-Search Advertising to increase consumers’ awareness, such as advertisement of new products.

As above, while advertising clients/advertising agents consider the Search Advertising as an advertisement to prompt consumers to purchase goods/services, the Non-Search Advertising is considered to be an advertisement to raise consumers’ awareness about goods/services. Based on such a fact, it seems that they recognize “Search Advertising” and “Non-Search Advertising” as different advertisements with different purposes and usages, and are using them differently to a certain extent.

Therefore, the demand substitutability between “Search Advertising Business” and “Non-Search Advertising Business” is limited.

b Supply substitutability

In case of the Search Advertising Business, either a person who has Search advertising system or a person who sells advertising spaces by using such a system under the license from the owner of the Search advertising system can play the role of the Media company. Therefore, the Media company as suppliers, who will shift their business from “Non-Search Advertising Business” to “Search Advertising Business”, will be in need of large amount of funds to cover the cost to set up the Search advertising system or to buy the license.

Therefore, no supply substitutability is observed between “Search Advertising Business” and “Non-Search Advertising Business”.

c Summary

Based on the above, “Search Advertising Business” and “Non-Search Advertising Business” have been defined as different scopes of services.

(c) Substitutability among “Display Advertising (Operation type) Business”, “Display Advertising (Reserved type) Business” and “Message-type Advertising Business” in the framework of “Non-Search Advertising Business”

a Demand substitutability

The Display Advertising (Operation type) is able to run an advertisement targeting at a particular consumer, who browses advertising media, based on its attributes (sex, resident area, interests and concerns, etc.). In case of the Display Advertising (Reserved type), it generally runs an advertisement for many and unspecified consumers irrespective of the attributes of the viewers. However, even in case of the Display Advertising (Reserved type), it still allows advertising clients as users to narrow down the target to particular groups of consumers to some extent by running an advertisement through a knowledgeable advertising agent in a particular business field.

Furthermore, the Message-type Advertising have the form of “E-Mail Magazine”, which inserts advertisement in the text or header, etc. of e-mail being sent, and the form of “Direct Mail”, which sends direct message to consumers that have an e-mail address or an account opened on the message app. According to the result of interviews with advertising clients/advertising agents as users, consumers often register themselves as a member beforehand for e-mail distribution or follow particular accounts of good/services, etc., and such behavior of consumers allow advertisements of any form to be targeted at consumers having a certain level of interests in the content of advertisement.

Because of the above, the Display Advertising (Operation type), the Display Advertising (Reserved type) and the Message-type Advertising are able to gain similar advantages in terms of efficient deployment of advertisement of goods/services to a particular group of consumers.

Therefore, the existence of demand substitutability is observed to a certain extent among “Display Advertising (Operation type) Business”, “Display Advertising (Reserved type) Business” and “Message-type Advertising Business”.

b Supply substitutability

Media companies, who provide “Display Advertising (Operation type)” and “Display Advertising (Reserved type)”, set up their own websites and, thereafter, sell advertising spaces that will be displayed on such websites.

On the other hand, Media companies, who provide “Message-type Advertising”, set up message apps and/or e-mail distribution systems through which consumers can communicate each other and, thereafter, sell advertising spaces that will be displayed on such e-mail and/or messages. Therefore, in order to shift the business to and from “Display Advertising (Operation type) Business”, “Display Advertising (Reserved type) Business” and “Message-type Advertising Business”, Media companies as suppliers will need to have funds and know-how to set up websites that are attractive enough to make their advertising space marketable or funds to set up message distribution systems.

Therefore, the supply substitutability is limited at least between “Display Advertising (Operation type) Business”/“Display Advertising (Reserved type) Business” and “Message-type Advertising Business”.

c Summary

As described above, although the demand substitutability is observed to a certain extent among “Display Advertising (Operation type) Business”, “Display Advertising (Reserved type) Business” and “Message-type Advertising Business”, the supply substitutability is limited. Therefore, it is also possible to define these businesses as different scopes of services.

However, in the LINE Group, among the sales related to digital advertising businesses, the Message-type Advertising Business constitutes one of the major services. On the other hand, in the ZHD Group and the SBK Group, the digital advertising business is mainly taken care of by the ZHD Group and the sales amount of the Message-type Advertising Business of the ZHD Group is small, while “Display Advertising (Operation type)” and “Display Advertising (Reserved type)” constitute a part of their major services. In order to investigate carefully on such major services of the Parties as businesses competing each other, “Display Advertising (Operation type) Business”, “Display Advertising (Reserved type) Business” and “Message-type Advertising Business” have been defined as the same Service range (“Non-Search Advertising Business”).

- (d) Based on the above, the Service range of this case has been defined as “Non-Search Advertising Business”.

B Geographic range

“Non-Search Advertising Business” is a business to sell advertising spaces displayed on internet services. Therefore, Media companies are able to sell advertising spaces in all regions of Japan irrespective of the location of advertising clients/advertising agencies without any location-based price difference. Therefore, the geographic range of this case has been defined as “all regions of Japan”⁹.

(2) Intermediation service of digital advertisement

Enterprises that provide intermediation services of digital advertisement offer services to two different user groups, namely, advertising clients/advertising agencies and Media companies. Therefore, the investigation is necessary to define scopes of services for both cases, namely the case where advertising clients/advertising agencies are the users and the case where Media companies are the users.

A Service range

(a) Substitutability between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement”, for both of which advertising clients/advertising agencies are users

a Demand substitutability

As mentioned in the above (2) of 1, in case of the Intermediation Service of Specific Digital Advertisement, advertising clients/advertising agencies as users can independently and completely provide intermediation services between advertising clients/advertising agencies and Media companies. On the other hand, intermediation services of other digital advertisement can perform only a part of the Intermediation Service of Specific Digital Advertisement, if such services are performed independently. Also, some of enterprises providing Intermediation Service of Specific Digital Advertisement provide intermediation services for their own advertising media only by using their own Intermediation Service of Specific Digital Advertisement. Therefore, the demand substitutability is limited.

⁹ In view of the fact that it is the sale of advertising spaces displayed on internet, there is a possibility that transaction will be made anywhere in the world. However, in consideration of constraints in languages used in advertisement, it is considered unnecessary to be prepared for the world market in this case.

b Supply substitutability

As mentioned in the above (2) of 1, the Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement can perform only a part of the Intermediation Service of Specific Digital Advertisement, if such services are performed independently. Therefore, it is considered difficult to switch such services to the Intermediation Service of Specific Digital Advertisement without incurring substantial amount of additional costs and risks. Therefore, the supply substitutability is limited.

c Summary

As described above, if advertising clients/advertising agencies are users, both demand and supply substitutability are limited between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement”. Therefore, the Service range of this case has been defined as “Intermediation Service of Specific Digital Advertisement”.

(b) Substitutability between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement” for Media companies as users

a Demand substitutability

As is the case mentioned in the above a of (A), for Media companies as users, the demand substitutability is limited between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement”.

b Supply substitutability

As is the case mentioned in the above b of (A), for enterprises, who provide Intermediation Service of Digital Advertisement, as suppliers, the supply substitutability is limited between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement”.

c Summary

As described above, if Media companies are users, both demand and the supply substitutability are limited between “Intermediation Service of Specific Digital Advertisement” and “Intermediation Service of Digital Advertisement other than Intermediation Service of Specific Digital Advertisement”. Therefore, the Service range of this case has been defined as “Intermediation Service of Specific Digital Advertisement”.

B Geographic range

Enterprises providing Intermediation Service of Specific Digital Advertisement are able to perform intermediation services of digital advertising space in all regions of Japan irrespective of the location of advertising clients/advertising agencies and Media companies as users without any location-based price difference. Therefore, the geographic range of the Intermediation Service of Specific Digital Advertisement of this case has been defined as “all regions of Japan”¹⁰, respectively.

3 Relevance to the safe-harbor criteria in particular field of trade

(1) Type of business combination

Because all members of the Parties are running Non-Search Advertising Businesses and are in competitive relationship each other, this case falls under the category of horizontal business combination in the Non-Search Advertising Business.

In addition, all members of the Parties are performing the Intermediation Service of Specific Digital Advertisement for both advertising clients/advertising agencies and Media companies as uses and are in competitive relationship each other. Therefore, this case falls under the category of horizontal business combination¹¹.

¹⁰ As is the case with “Non-Search Advertising Business” in the above B of (1), if constraints in languages used in advertisement is taken into account, it can be considered unnecessary to be prepared for world market in this case.

¹¹ Meantime, this case also falls under the category of vertical business combination, of which upstream market is the Intermediation Service of Specific Digital Advertisement, and of which downstream market is the Non-Search Advertising Business (Users of such intermediation services and advertising businesses are Media companies). However, as it will be discussed later in 4, there are strong competitors in both markets and the increase in the sales of the Group of the Parties after integration of the Intermediation Service of Specific Digital Advertisement is small. Therefore, it seems that the conduct of this case will not pose any risk of input foreclosure and customer foreclosure. Therefore, the detailed investigation has been omitted.

(2) Relevance to the safe-harbor criteria to horizontal business combination

A Non-Search Advertising Business

As the market size of the Non-Search Advertising Business is not available, the market share of the Parties in the said business field is unknown. Therefore, it will be investigated later in 4 whether or not the conduct of this case would substantially restrain competition based on an assumption that the safe-harbor criteria is not met.

B Intermediation Service of Specific Digital Advertisement

As is the case in the Non-Search Advertising Business, because the market size of the Intermediation Service of Specific Digital Advertisement is not available for neither case where advertising clients/advertising agencies are users nor the case where Media companies are users, the market share of the Parties in the field of the said intermediation services is unknown for both cases. Therefore, it will be investigated later in 4 whether or not the conduct of this case would substantially restrain competition based on an assumption that the safe-harbor criteria is not met.

4 Examination on substantial restraint on competition

(1) Position, etc. of the Parties and competitors

A Non-Search Advertising Business

Although the market size of Non-Search Advertising Business is unknown, the aggregated market share of the Parties in particular field of trade of this case cannot be considered high, even if it is estimated based on the market share in terms of expense of advertising media on internet excluding the Search Advertising cited from “2018 Detailed analysis of Advertising Expense and Expense of Advertising Media on Internet in Japan” prepared by Dentsu Inc.

Also, in the field of the Non-Search Advertising Business, there are powerful competitors other than the Parties. Especially, some of such competitors have various media for the Non-Search Advertising such as video-sharing sites, SNS sites and photo posting sites, which are well-known to consumers. According to the result of interviews with advertising clients/advertising agencies as users, it was said that the ratio of transactions, in which digital advertisements are put in advertising spaces of competitors other than the Parties, was high.

Furthermore, in case of the Non-Search Advertising Business, unlike the manufacturers, capacity of facilities does not play a major role in the provision of services and subdivision of digital advertising space and/or enlargement of digital advertising media are relatively easy. Also, such digital advertising spaces have no upper limit. Because of such facts, even if the Parties should raise the

price of digital advertising spaces as a result of the conduct of this case, advertising clients/advertising agencies as users may make a deal with other powerful competitors that have an adequate excess capacity.

B Intermediation Service of Specific Digital Advertisement for the case where both of advertising clients/advertising agencies and Media companies are users

As is the case of the Non-Search Advertising Business, there are multiple powerful competitors other than the Parties also in the field of Intermediation Service of Specific Digital Advertisement. According to the result of interviews with advertising clients/advertising agencies and Media companies as users, they voiced that, if an enterprise having advertising media that are well-recognized by consumers also provides the Intermediation Service of Specific Digital Advertisement, many of advertising clients/advertising agencies and Media companies as users will end up using the Intermediation Service of Specific Digital Advertisement provided by such an enterprise. Therefore, they say that such an enterprise is in a strong position also in the field of the Intermediation Service of Specific Digital Advertisement.

In addition, if the magnitude of the sales of FY2018 of the Parties for the Intermediation Service of Specific Digital Advertisement is taken into account, it can be considered that the increase in the market share of the Parties as a result of the conduct of this case is negligibly small.

Furthermore, in case of the Intermediation Service of Specific Digital Advertisement, unlike the manufacturers, capacity of facilities does not play a major role in the execution of business. Also, enterprises providing the Intermediation Service of Specific Digital Advertisement have also been performing the system maintenance based on an assumption that the number of advertising clients/advertising agencies and Media companies will increase. Because of such facts, even if the Parties should raise the fee for the Intermediation Service of Digital Advertisement as a result of the conduct of this case, advertising clients/advertising agencies or Media companies as users are able to make a deal with other powerful competitors that have an adequate excess capacity.

(2) Concerning evaluation of competition-related data owned by the Parties¹²

In the course of the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement operated by the Parties, there are cases where data such as information on common ID of platforms provided by each member of the Parties (such as sex, telephone number¹³) and information on search history and/or purchasing behavior of consumers obtained through other business activities (searching business and E-commerce business, etc.) of the Parties are used. Regarding this matter, during interviews with competitors, they expressed a concern that the business capability of the Parties might be improved as a result of the fact that, after the conduct of this case, the Parties would become to be able to use the information on such common ID and the data obtained through other business activities for the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement.

A Concerning the variety of data obtained by the Parties

As mentioned in the above, data that can be obtained by the Parties through business activities other than the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement (hereinafter referred to as “Other Business Data”), include information related to common ID, search history and shopping history of E-commerce users, etc. However, if such Other Business Data are compared with those which are obtainable by leading enterprises in competition running the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement (such as search histories on major search engine portal site, user profiles on SNS and shopping histories on major internet shopping malls), they can neither be considered as unique data that can only be obtainable through the utilization of services provided by the Parties nor data that would exert a substantial influence on the competition in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement.

¹² The Digital Advertising Business is a business activity to sell digital advertising spaces and, as an issue of business capability improvement as a result of data accumulation, it is also possible to make an investigation with a focus on the Intermediation Service of Specific Digital Advertisement that runs targeting advertisement. However, in view of the fact that many of advertisement placed in the advertising space sold by the Group of the Parties are generally placed through the Intermediation Service of Specific Digital Advertisement provided by the Group of the Parties, it has been decided to investigate the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement together.

¹³ Including the case where users provide such information voluntarily. The same shall apply hereinafter.

B Concerning the volume/range of data obtained by the Parties

It is difficult to quantitatively understand the volume or range of Other Business Data that the Parties can obtain. However, if the positions of the Parties in the field of respective businesses other than the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement are taken into consideration in comparison with the positions of competitors in the field of respective businesses other than the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement (such as business operation of searching business, video-sharing site, SNS site and photo posting site), it cannot be considered that the volume or range of Other Business Data obtainable by the Parties is so large or wide as would give an advantage to the position of the Parties in comparison with those obtainable by competitors.

Particularly in this case, because of the large number of users of contents of “Yahoo! Japan” and “LINE” of the Parties in Japan, there are concerns that accumulation of information relating to those common ID may result in enhancement of the business capability.

However, if such facts as (i) the common ID-related information is basic information such as sex and telephone number as mentioned in the above A, and, among data obtained by the Parties, the type of such information is considered neither as unique data obtainable only through the use of services provided by the Parties nor as data that would exert substantial influence on competition in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement, (ii) there seem to be numbers of overlap to a substantial extent between the groups of users of both services and (iii) according to the Parties, formats of data that both companies currently have are optimized in different form for each business/company, and the integration of data in different format is technically very difficult, etc.¹⁴ are taken into consideration, the volume/range of data obtained by the Parties cannot be considered so large/wide that will give the Parties an advantage to enhance their competitive position even if the said concerns are taken into consideration.

C Frequency(velocity) of data collection by the Parties

Other Business Data that the Parties can obtain are collected every time when users of services relating to respective businesses use the said services.

¹⁴ Regarding the quality of targeting, according to the result of interviews with experts, while data need to have a certain level of scale, the required quality of targeting can be adequately secured once a certain level of scale has been secured. Namely, there is also an opinion that the scale of data exceeding such a certain level will not always contribute to significant enhancement of targeting quality.

However, as is the case mentioned in the above B, the frequency is not considered so high that will give the Parties an advantage to enhance their position, if it is compared to the frequency of collection of Other Business Data by competitors.

D Relationship with improvement of services, etc. in relation to the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement between one of the Parties and the Other of Parties

The communication business operated by the LINE Group has monthly users as many as approximately 84 million persons or more which is one of the largest numbers in Japan. As a result of the conduct of this case, the ZHD Group will newly become able to obtain data (text data, etc. of users' messages), which have been obtained/kept by the LINE Group through the communication business. As a consequence of this, it may be an issue whether substantial influence will be exerted on the competitive position of the Parties in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement. However, because the protection of confidentiality under the Telecommunications Business Act (Act No. 86 of 1984) is applicable to contents of communication among users, which have been obtained/kept by the LINE Group, even the LINE Group themselves are not permitted to see/use such contents unless otherwise permitted by law. Therefore, obtainment of such data will not result in exerting a substantial influence on the competitive position of the Parties in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement.

E Other situation

Even before the conduct of this case, the Parties was in a position to be able to use Other Business Data owned by respective members thereof in the course of the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement that had been operated by them on their own. However, there are more than one powerful enterprises other than the Parties in the field of the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement. Because of this, it cannot be considered that the Parties has reached to the level where they can use Other Business Data owned by themselves as advantageously as would exert a substantial influence on the competition in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement.

Also, in case where any information obtained through other businesses is used, in addition to those mentioned in the above D, there are restrictions under the Act on the Protection of Personal Information (Act No. 57 of 2003), etc. for the use of such information. Therefore, it is considered that strict protection and control system is continuously required under the current situation where the importance of personal and privacy information is re-acknowledged along with the advancement of digitalization, etc. by IoT (Internet of Things).

F Summary

Based on such a situation as above, although the Parties are currently running the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement and, at the same time, respective members of the group are also running businesses other than the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement, it is considered that the business capability of the Parties will not be enhanced to the extent the competitive pressure will not work effectively, even if data obtained from the other businesses are taken into account.

(3) Concerning the existence of indirect network effect

The Parties sells advertising spaces to advertising clients/advertising agencies by way of distribution of various contents such as news articles, comics, videos and games. The more users of contents of the Parties will increase, the more chances of such users to look at advertisements will increase. Then the Digital Advertising Business of the Parties will become more attractive. Further, in view of the fact that many of advertisements in the advertising spaces sold by the Parties are generally placed through the Group's own Intermediation Service of Specific Digital Advertisement, such an increase in the needs for advertisement will result in an increase in the needs for the Intermediation Service of Specific Digital Advertisement of the Parties. Because of such a spiral of benefits, it can be said that indirect network effect is workable between each content business as well as the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement.

Therefore, even if there is no substantial restraint on competition when the degree of influence of the conduct of this case is measured on the basis that each content distribution business is considered as a particular field of trade, there still be a risk of influence on the competitive position due to the improvement of business capability of the Parties in the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement, as a result of the conduct

of this case and eventual integration of multiple contents services that used to compete each other within the Parties and have relationship with advertising businesses. Therefore, when an influence on the competition in the field of the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement is investigated, it is appropriate that the existence of multidimensional indirect network effect is taken into consideration.

The services, which are classified as neither the Digital Advertising Business nor the Intermediation Service of Specific Digital Advertisement, (such as video-sharing site, SNS site and photo-posting site) owned by powerful competitors that are mentioned in the above (1) are all considered as important services having indirect network effects workable on the Digital Advertising Business and the Intermediation Service of Specific Digital Advertisement, just like the case of contents distribution businesses owned by the Parties. Therefore, there is no reason to consider that the indirect network effects created as a result of an integration of respective contents distribution businesses owned by the Parties become so strong that surpass the indirect network effects of the important services provided by such competitors.

Therefore, as mentioned in the above (1) and (2), in this case, it is considered that there is no reason to downgrade the severity of competitive pressure, etc. created by the existence of powerful competitors, even if such multidimensional indirect network effects as mentioned in the above are taken into consideration.

(4) Conclusion

Based on the above, the JFTC concluded that the conduct of this case would not substantially restrain competition in the Non-Search Advertising Business and the Intermediation Service of Specific Digital Advertisement, of which users are both advertising clients/advertising agencies and Media companies through unilateral conduct or coordinated conduct of the Parties.

Part 6 Code-based payment business

1 Outline of cashless payment and services provided by the Parties

Cashless payment means payment made by means other than physical cash (paper note/coin) and is broadly categorized into the following: (i) Payment by credit-card, (ii) Payment by debit card, (iii) Payment by electronic money (stored-value card)¹⁵, (iv) Payment by electronic money (mobile device) and (v) Code-based payment (see [Table 1] for main features of each cashless payment service).

¹⁵ Electronic money typically means an electronic payment method by prepaid system in which necessary amount of money needs to be charged beforehand. (Source: HP of the Bank of Japan)

Among such cashless payment methods, the SBK/ZHD Group offers “PayPay” and the NAVER/LINE Group offers “LINE Pay”. Both of these methods are classified as (v) Code-based payment. Therefore, details of the code-based payment business will be discussed hereinafter.

[Table 1] List of various cashless payment services and their outlines

Name of service	Main points of service	Main features		
		Form of payment	Payment method	Time of payment
(i) Payment by credit card	A cashless payment method which allows future payment depending on the creditworthiness of purchaser. Credit examination by credit card company is required beforehand to be qualified for the payment by credit card.	Card type	Swipe method, etc. ¹⁶	Future payment
(ii) Payment by debit card	A payment method through which the transaction amount is debited from the purchaser's bank account at the time of transaction simultaneously (immediate payment upon transaction).	Card type	Swipe method, etc.	Upon transaction
(iii) Payment by electronic money (stored-value card)	A payment method through which payment is executed by reading the payment information of consumer stored in IC card, etc. through non-contact-type card reader.	Card type	Non-contact method ¹⁷	Prepaid method ¹⁸
(iv) Payment by electronic money (mobile device)	A payment method through which payment is executed by reading the payment information of consumer stored in apps on smartphones through non-contact-type card reader.	Mobile type	Non-contact method	Prepaid method or future payment
(v) Code-based payment	As per 2 below	Mobile type	Code-based method	Prepaid method or future

¹⁶ A method to make payment by swiping magnetic stripe or IC chip on magnetic card, etc. through card reader of terminal device, which reads the payment information of consumer stored therein and execute payment.

¹⁷ A method to make payment electronically by waving magnetic card (mostly IC card) or smartphone (on which necessary apps are installed) over a device named NFC utilizing short range communication technology (hereinafter referred to as “Non-contact-type Card Reader”). By waving the card or smartphone, information stored therein are read by the reader.

¹⁸ A method to make payment of purchase of goods or services by using the money saved beforehand in the card by cash deposit or by transfer from bank account or credit card.



				payment
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※The list shows main features.

2 Outline of code-based payment service

Code-based payment service means a service to provide consumers and member stores with a payment method that execute payment by electronically reading payment information of the consumer stored in the form of bar code or QR code (hereinafter both are referred to simply as “Code”) by using a payment app on smartphone¹⁹.

There are two methods to use the code-based payment service. Namely, (i) to make payment by reading the code presented by the member store by using the consumer’s own smartphone (MPM: Merchant-Presented Mode) or (ii) payment is made when member store’s code reader reads the code on payment app on consumer’s smart phone presented by the consumer (CPM: Consumer-Presented Mode). Their features are that (i) MPM requires only a piece of paperboard, etc., on which the code is displayed, as a preliminary preparation to be made by member stores and requires negligible initial cost in many cases²⁰, and is rather popular among small and medium sized stores, and (ii) CPM requires modification of POS system, etc. and is often used among large scale stores such as convenience stores and large scale chain stores.

MPM: Merchant-Presented Mode		<p>A method through which user’s own smartphone read the code presented by the member store.</p> <p>There are two types of code, namely, one is a code presented by store which includes information on payment amount (dynamic code) and another is a code displayed at member store which the user read on smartphone and input the payment amount to make payment (static code).</p>
CPM: Consumer-Presented Mode		<p>The user presents the code by displaying on payment app on user’s own smartphone, and the member store of the code-payment service reads such a code by scanning by code reader, etc.</p>

3 Market conditions in association with code-based payment service

The market size relating to code-based payment service in 2019 has rapidly grown to approximately 500 billion yen, more than three times as much as 150 billion yen

¹⁹ There are also services available for online payment.

²⁰ Even in case of MPM, it is necessary for member stores to have devices such as tablet, etc. to prepare QR code in case of dynamic code system. Therefore, enterprises that have no such devices, etc. still incur a certain amount of initial cost.

in 2018, and there is also a forecast that it will reach 9.7 trillion yen in 2025²¹. Namely, considerable growth is expected in the future. If we look at the ratio of amount paid by code-based payment among private-sector final consumption expenditure in this country, it has increased to 0.31% in 2019 from 0.05% in 2018, representing approximately six-fold growth in one year²². Taking these facts into consideration, it can be considered that, there is a possibility for a radical change in competitive environment in association with the code-based payment service in a few years.

4 Particular field of trade

(1) Definition of a particular field of trade in case where multiple groups of users exist

The enterprises that operate code-based payment services provide their services to two different groups of users, namely, consumers and member stores²³. Therefore, it is necessary to define and investigate the scopes of services for two different cases, namely, one for the case where consumers are the users and another case where member stores are the users.

A Service range

(a) Code-based payment service for consumers as users

a Demand substitutability

According to private research data obtained by the Parties²⁴ and data which have been aggregated/processed/analyzed by the Parties based on its own data, etc. and submitted to the Commission (hereinafter referred to as “the Submitted Data”), the great majority of cashless payment methods

²¹ Card-Wave “General Survey on Electronic Payment 2019 – 2020”

²² Materials from the 2nd “Review Meeting on Environmental Improvement for Further Facilitation of Cashless Payment for Small and Medium-Sized Stores” of the Ministry of Economy, Trade and Industry (June 23, 2020). There was also a comment during interviews with member stores that the ratio of code-based payment was almost doubled in one year compared to those in the early days when such payment method was introduced.

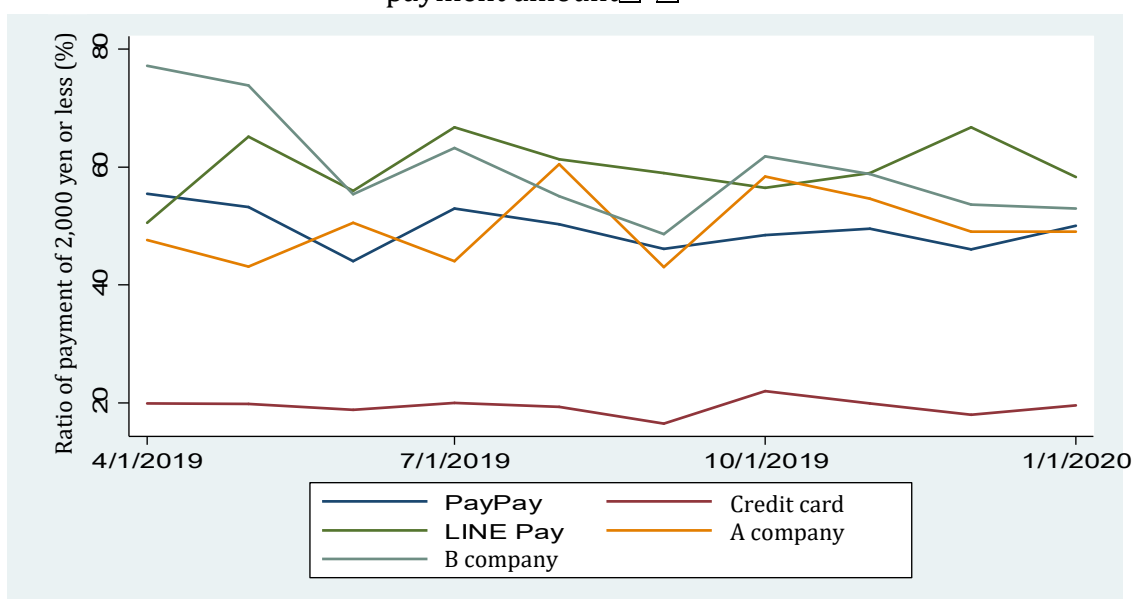
²³ Code-based payment service consists of two transactions conducted by the enterprise that provides the code-based payment service, namely, (i) a transaction to provide a consumer with cashless payment method (code-based payment) free of charge (a transaction in which the consumer is the user) and (ii) a transaction to provide a member store with cashless payment method (code-based payment) with service fee imposed on the member store (a transaction in which the member store is the user).

²⁴ The said data were obtained from the investigation on daily household accounts of approximately 30 thousand men and women aged between 15 and 59 (60 years old or over is partly included). Categories of the goods included in such data broadly covers goods/services that are regularly purchased by general consumers on a day-to-day basis, such as “foods/commodities”, “dining out”, “home electrical appliances”, “beauty care/health/medical care/sanitation” and “clothes/fashion”.

used by consumers other than code-based payment is dominated by credit card payment²⁵.

In case of code-based payment services where consumers are users, consumers can use the code-based payment free of charge. However, in case of credit card, annual fee might be charged, which is different from the code-based payment. Credit card requires credit examination for qualification, which is also a difference. Furthermore, according to the Submitted Data, credit cards are often used for payment of larger amount compared to code-based payment (refer [Figure 1]). This indicates that consumers are using the two payment methods differently depending on the payment amount²⁶. Based on such facts as above, it is considered that demand substitutability is limited between code-based payment and credit card payment.

[Figure 1] Ratio of payment of small amount (2,000 yen or less) out of aggregated payment amount²⁷ ²⁸



If we look at the comparison between the code-based payment service and cashless payment services other than credit card payment (payment by electronic money (stored-value card), etc.), they have common features

²⁵ According to the Submitted Data, the ratio of credit card payment among total cashless payment is 59% in terms of paid amount and 35% in terms of number of times of payment as of October 2019.

²⁶ The same tendency was also confirmed in the course of interviews with member stores.

²⁷ This shows the result obtained from calculation of “total amount of payment not more than 2,000 yen made by each payment method” divided by “total amount of payment made by each payment method”.

²⁸ This chart was prepared by the JFTC based on the Submitted Data.

such as no fee charged to consumers and similarities in the amount of payment (both payment methods tend to be used for relatively smaller amount of payment compared to credit card payment), although there are differences such as the code-based payment is made on payment apps on smartphone, etc. while the payment by electronic money (stored-value card), etc.) always requires the card being carried by the user. Therefore, it can be considered that demand substitutability is observed to a certain extent between the code-based payment service and cashless payment services other than credit card payment.

b Supply substitutability

Services provided by the code-based payment service and services provided by the other cashless payment services have substantial differences in reading methods of payment data and in payment systems. Therefore, supply substitutability is limited.

c Summary

In addition to the above, the Service range of this case in the situation where the group of users are consumers has been defined as “Code-based payment service for consumers as users”, in consideration of the fact that all members of the Parties are competing in code-based payment services, the fact that, according to the internal data of the Parties, the Parties always determine strategies for an increase of the number of users considering only the enterprises providing code-based payment services as competitors and the fact that, among cashless payment methods, the growth of code-based payment is particularly significant, etc.

In the meantime, as for cashless payment methods other than code-based payment service, even though they are not considered as the same market, it can be considered that there is a possibility for such payment methods to be assessed as a certain competitive pressure. Therefore, it has been determined that they will be investigated later in 6 as a competitive pressure from adjacent markets.

(b) Code-based payment service for member stores as users

a Demand substitutability

When a member store newly introduces cashless payment, it is generally necessary for them to pay (i) initial cost (introduction cost) and (ii) fee for payment service. Regarding (i) initial cost, many of cashless payment

methods require initial cost for installation of a certain equipment. For instance, if credit card payment method will be adopted, installation of terminal devices to read credit card information and to transmit/send payment data will be required. In contrast to this, in case of code-based payment method, if it is the method where the payment is made by consumer's reading the code presented by the member store (MPM: Merchant-Presented Mode), almost no initial cost is required. Thus, it can be considered as an important feature that makes member stores as users feel easier to adopt code-based payment compared to the other methods. Regarding (ii) fee for payment service, for example, in case of PayPay of the SBK/ZHD Group who is a late comer in the field of code-based payment service, the group has been running a campaign that offers no merchant fee to member stores, who satisfy a certain qualification requirements, to increase the number of member stores since the launch of their service in October 2018 until now. It was also learnt during interviews with competitors and member stores that, even in case of code-based payment services in which member store fees were charged, the rates of such fees for code-based payment services were, in general, set at levels slightly lower than those for other cashless payment services. Under such circumstances, there were many opinions expressed during interviews with member stores that, even if the fee for code-based payment services would be slightly raised, the member stores would not be urged to change their payment methods to other method. Therefore, demand substitutability is limited between the code-based payment service and cashless payment services other than code-based payment.

b Supply substitutability

In case where member stores are the users, as is the case where consumers are the users (refer to the above b of (A)), supply substitutability is also limited between the code-based payment service and cashless payment services other than code-based payment.

c Summary

In addition to the above, as is the case with the code-based payment service for consumers as users, the Service range of this case in the situation where the group of users are member stores has been defined as "Code-based payment service for member stores as users", in consideration of the fact that all members of the Parties are competing in code-based payment

services, the fact that, according to the internal data of the Parties, the Parties always determine strategies for an increase of the number of users considering only the enterprises providing code-based payment services as competitors and the fact that, among cashless payment methods, the growth of code-based payment is particularly significant, etc.

In the meantime, as for cashless payment methods other than code-based payment service, even though they are not considered as the same market, it can be considered that there is a possibility for such payment methods to be assessed as a certain competitive pressure. Therefore, it has been determined that they will be investigated later in 6 as a competitive pressure from adjacent markets.

B Geographic range

In view of the fact that code-based payment services have been provided without any specific geographic restriction domestically in Japan and without any area-specific condition that causes substantial difference in service prices, geographic range has been defined as “all regions of Japan” for both of “code-based payment service for consumers as users” and “code-based payment service for member stores as users”.

5 Relevance to the safe-harbor criteria to particular field of trade

As all members of the Parties are providing code-based payment services for consumers as users and the same for the member stores as users, and are in competitive relationship each other, this case falls under the category of horizontal business combination. The market shares of the Parties in the field of code-based payment services in terms of amount of money paid through code-based payment are as shown in [Table 2]. Namely, based on the market shares as of January 2020, the aggregated share of the Parties after the conduct of this case was approximately 60% (No. 1), HHI²⁹ after the conduct of this case was approximately 4025 and the increase in HHI was approximately 877. Therefore, the safe-harbor criteria of horizontal business combination is not met.

²⁹ Herfindahl-Hirschman Index (an index to indicate the degree of market concentration and is obtained as a total sum of the square of the value of market shares of respective enterprises in particular field of trade.)

[Table 2] Market share in the market of code-based payment services (based on amount of money paid through code-based payment)³⁰

Name of service	Market share ³¹						
	April 2019	Rank order	September 2019	Rank order	January 2020	Rank order	
SBK/ZHD Group	Approx. 50%	No. 1	Approx. 50%	No. 1	Approx. 55%	No. 1	
NAVER/LINE Group	Approx. 25%	No. 2	Approx. 10%	No. 4	Approx. 5%	No. 5	
A Company	Approx. 10%	No.3	Approx. 15%	No. 2	Approx. 10%	No. 3	
B Company	Approx. 5%	No. 4	Approx. 10%	No. 3	Approx. 15%	No. 2	
C Company	Approx. 5%	No. 5	Approx. 5%	No. 5	Approx. 5%	No. 4	
D Company	Approx. 0 - 5%	No. 6	Approx. 5%	No. 5	Approx. 5%	No. 6	
E Company	Approx. 0 - 5%	No.6	Approx. 0 - 5%	No. 7	Approx. 0 - 5%	No. 7	
Others	Approx. 5%	-	Approx. 5%	-	Approx. 5%	-	
Total	100%		100%		100%		
Total share (HHI)	Rank order	Approx. 75% (5850)	No. 1	Approx. 60% (4025)	No. 1	Approx. 60% (4025)	No. 1

6 Investigation on substantial restraint on competition

As mentioned in the above 4, two fields of trade, namely, (i) code-based payment service for consumers as users and (ii) code-based payment service for member stores as users are defined for code-based payment services. The relationship between the two fields of trade is such that the more the number of consumers using a specific code-based payment service are increased in the field of (i), the more the incentive for member stores to adopt such a specific code-based payment service will be increased in the field of (ii), and vice versa (the more the number of member stores using a specific code-based payment service are increased in the field of (ii), the more the incentive for consumers to adopt such a specific code-based payment service will be increased in the field of (i)). Namely, the two fields of trade are in a relationship where indirect network effect is workable. Therefore, the influence exerted by the conduct of this case has been investigated taking such characteristics of the market into consideration.

Furthermore, the JFTC has determined to investigate whether the Parties will attain the market power especially in the field of trade of code-based payment service at the consumers as a result of the conduct of this case, and whether it enables

³⁰ The table was prepared by the JFTC based on the Submitted Data.

³¹ Market shares are mentioned in increments of 5%, such as the share of not less than 47.5% and less than 52.5% is indicated as "Approx. 50%". Therefore, the total will not always be 100%. The same shall apply hereinafter.

the Parties to raise the payment service fee of member stores through indirect network effect from code-based payment service for consumers. In this relation, structural estimation model was developed to estimate the price elasticity and the magnitude of indirect network effect of respective demands at consumers and member stores, and the data necessary for the analysis thereof were requested. In response to such a request, the Parties reported that they did not have a portion of the data required for the analysis and conducted an economic analysis on payment services focused on the consumers (hereinafter referred to as “Economic Analysis of the Parties”) based on the Submitted Data as an alternative way. Then, the analysis has been submitted to the JFTC. For the purpose of the investigation on this case, the JFTC has conducted the economic analysis on its own by means of assessment/verification of the Economic Analysis of the Parties.

(1) Code-based payment service for consumers as users

A Position of the Parties

As mentioned in the above 3, the market relating to code-based payment service has rapidly grown and changed in the past year, and, therefore, services provided by the Parties have been enhanced through a substantial increase in numbers of members and member stores during a period little more than one year (for example, the frequency of payment made by PayPay increased from 21.6 million times in January-March 2019 to 375 million times in January-March 2020). Reflecting such a rapid growth of business activities of the Parties, the size of market relating to code-based payment services as well as the market shares have dramatically changed (refer to [Table 2] of the above 5).

(a) Position of the SBK/ZHD Group

PayPay is a code-based payment service provided by the SBK/ZHD Group. They were a latecomer started the service in October 2018, but rapidly increased numbers of users and member stores through a massive campaign such as 10 billion yen cash-back to users and have gained the market share as much as approximately 50% by April 2019, six months after the launch. Thereafter, they repeated offering large-scale cash-back campaigns, etc. to users and have achieved approximately 55% market share by January 2020 (No. 1 market share). Furthermore, if we look at the total numbers of members and member stores of PayPay, it overwhelms those of competitors outside the Parties. In consideration of the fact that code-based payment services have two fields of trade, namely, code-based payment services for consumers as users and code-based payment services for member stores as

users, and that indirect network effect works between the two fields of trade, the position of the SBK/ZHD Group is considered to be exceptionally strong not only because of their No. 1 market share but also the overwhelming total numbers of users and member stores compared to those of the other enterprises in competition.

(b) Position of the NAVER/LINE Group

On the other hand, LINE Pay, the code-based payment service provided by the NAVER/LINE Group, started the service in December 2014 and had market share of approximately 25 % with No. 2 ranking as of April 2019. However, the share rapidly declined after July of the same year and dropped down to approximately 5 % with No.5 ranking by January 2020. Therefore, if we look only at the current market share, the position of the NAVER/LINE Group relating to code-based payment service can be considered to be remarkably low compared to the other competitors.

However, in view of the following facts, it seems inappropriate to underestimate the competitive position of the NAVER/LINE Group based only on the market share calculated according to the amount of money paid through code-based payment as of today.

(i) The fact that the popularity of LINE Pay has been steadily improving, if the number of active users and the frequency of payment are taken into consideration

Contrary to the impression given by the decline of market share, LINE Pay has a steady improvement in number of users in terms of the number of monthly active users of the code-based payment service provided by the Parties during one year period in 2019.

In addition, although the number of active users was as small as 10 thousand or so in October 2018 when the service launched, it has dramatically increased to 1 million in three months thereafter and to 10 million by the end of 2019.

Furthermore, as shown in [Table 3], while the market share of LINE Pay calculated based on the transaction amount paid through the service has consistently decreased from approximately 25% as of April 2019 to approximately 10% as of September 2019 and further to approximately 5% as of January 2020, if we look at the transition in the transaction amount paid through code-based payment service and frequency of such payment during the said period of time, it does not necessarily mean that the

transaction amount paid through the service has consistently decreased, namely, such transaction amount in January 2020 maintained the level of September 2019, although it had decreased compared to the amount in April 2019. The table also shows that, in terms of the frequency of payment, it has rather improved compared to the situation in April 2019.

[Table 3] Market share of LINE Pay,
transition of transaction amount and frequency of payment³²

	April 2019	September 2019	January 2020
Market share	Approx. 25%	Approx. 10%	Approx. 5%
Transaction amount*	100	Approx. 78	Approx. 78
Frequency of payment*	100	Approx. 108	Approx. 104

* Scores of transaction amount and frequency of payment are calculated based on the values as of April 2019 of which score is set as 100.

(ii) The fact that LINE Pay is considered to have many potential users and the fact that LINE Pay overwhelms the other competitors in terms of total numbers of members and member stores

If we look at total number of members of code-based payment service of the Parties, total number of members of LINE Pay is much larger than that of PayPay who has No. 1 market share. Furthermore, there are more than approximately 84 million monthly active users of LINE app provided by the NAVER/LINE Group, and it can be considered that such users of LINE app have a strong probability to be members or active users of LINE Pay in the future.

Also, regarding the number of member stores, LINE Pay has secured the number of member stores comparable to that of PayPay having No. 1 market share.

Under such circumstances, the total number of users and member stores of LINE Pay can be considered to be quite substantial compared to those of competitors that have larger market shares than the NAVER/LINE Group.

As mentioned in the above, regarding code-based payment services, if the fact that indirect network effect works between the two fields of trade (namely, code-based payment service for consumers as users and code-based payment service for member stores as users) is taken into

³² The table was prepared by the JFTC based on the Submitted Data.

consideration, it can be considered that the competitive position of the NAVER/LINE Group that overwhelms other competitors in terms of total numbers of members and member stores becomes even stronger than the position indicated by the market share based on the current amount of payment made through code-based payment services.

(iii) The fact that cash-back campaign is considered to have a strong impact on the fluctuation of market share

In the market relating to code-based payment service, extensive cash-back campaigns have been continuously conducted by enterprises that provide code-based payment services for a few years, and it can be conceived that consumers consider “cash-back campaigns” to be an important factor in the choice among enterprises providing code-based payment services.

For example, a survey clarified that, when the SBK/ZHD Group conducted a campaign named “PayPay 10 Billion Yen Give Away Campaign (first phase)”³³ for December 4 through December 13, 2018, the number of active users of PayPay started a rapid increase from the previous day of the launch of the said campaign and ended up in an explosive increase by the time when it was closed.

A similar tendency was seen in the case of LINE Pay, for which they conducted a cash-back campaign named “Super Pay-Toku Spring Fest”³⁴ in March 2019. The campaign achieved a considerable increase in all of number of users, amount of payment made through the service and the number of transactions of which payment was made through the service compared to those of the previous month (February 2019).

Irrespective of such a significant impact of cash-back campaigns on the market share as shown in the above, the NAVER/LINE Group have substantially deducted the marketing expense which is the funding source of cash-back campaign of LINE Pay starting from July 2019³⁵. Then, the drastic decline of market share of LINE Pay started immediately.

³³ A campaign that offers 20% cash-back of amount of code-based payment (maximum cash-back of 50,000 yen out of upper limit of monthly payment 250,000 yen) to every user with further 100% cash-back for winners of the lottery.

³⁴ A campaign that offers cash-back of 20% of code-based payment (maximum cash-back of 5,000 yen per person) to every user with further cash-back of maximum 2,000 yen worth for winners of the lottery.

³⁵ According to financial statement of the LINE Group for the 3rd quarter (from July to September) of FY2019, marketing expense for the said period was reduced by 92% compared to the previous quarter (April to June of 2019).

Under such circumstances, there is a possibility that the drastic decline of market share of LINE Pay was caused by their discontinuation of extensive campaigns rather earlier compared to the other enterprises. Therefore, to the contrary, it is reasonable to consider that LINE Pay can gain the market share as soon as they start such extensive campaigns again.

As described above, it seems at the first glance that LINE Pay has lost the market share remarkably and has been placed in a substantially lower competitive position in the market relating to code-based payment service. However, in consideration of the situation mentioned in the above (i) through (iii), the competitive position of the NAVER/LINE Group can be considered to be at a higher level than that implied by the current market share based on the amount of payment made through code-based payment services.

B Severity of competition among members of the Parties

If there has been active competition between PayPay and LINE Pay since early times and if they have been in such a relationship where an increase in market share of one party would result in a decrease in market share of the other party (competitive relationship between members of the Parties is strong), it is considered that the influence exerted by the conduct of this case is strong.

In the economic analysis of the Parties, they conducted an analysis of “diversion ratio”³⁶ to assess the severity of competition in the service quality between members of the Parties, and alleged that the severity of competitive relationship between the members of the Parties (competitive relationship between PayPay and LINE Pay) is same as or less than the competitive relationship between PayPay and other code-based payment service. The diversion ratio in the economic analysis of the Parties is calculated by way of event analysis, in which the one-day-only campaign named “PayPay 1st Anniversary [PayPay Thanks Day] Campaign”³⁷ conducted by the SBK/ZHD Group on October 5, 2019 (hereinafter referred to as “PayPay 1st Anniversary Campaign”) was brought into focus and an increase in demand for PayPay (amount of payment executed) and a decrease in demand for each code-based payment service (amount of payment executed) on the same day are compared.

³⁶ Diversion ratio means, in a situation where two differentiated goods exist and the demand of one goods is decreased due to price increase, the ratio of such lost demand substituted by another goods, and is one of indices to indicate the severity of competition between companies or goods quantitatively.

³⁷ A campaign that offered cash-back of maximum 20% of amount of code-based payment to all users (with upper limit of cash-back amount of 1,000 yen per transaction, etc.) with further chance for 100% cash-back with a probability of one in 50 chances (with upper limit of 100,000 yen).

However, the PayPay 1st Anniversary Campaign was one-day-only campaign and if the cash-back amount is evaluated in expected value, it corresponded to discount of 21.6% in case of a purchase of 5,000 yen and discount of 12% in case of a purchase of 10,000 yen. Therefore, there was a possibility that, among many consumers using other payment method, there were users who tentatively used PayPay only for one day (namely, they cannot be considered to have changed their payment method), and such a possibility cannot be eliminated. Because of this, there is a possibility that the result of analysis of diversion ratio was overestimated, and such a possibility is necessary to be taken into consideration in the course of investigation hereunder.

On the premise of those facts, as a result of verification of allegations of the Parties, the diversion ratio from LINE Pay to PayPay on the day when the PayPay 1st Anniversary Campaign was conducted was almost comparable to or less than the diversion ratio from other code-based payment services provided by competitors to PayPay. Therefore, under such circumstances, the allegation of the Parties that the competitive relationship between PayPay and LINE Pay is not particularly strong is considered to be reasonable. However, as stated in the above (iii) of (b) of A, LINE Pay has discontinued any large-scale campaign since July 2019 and, therefore, the possibility of a situation, where the diversion ratio from LINE Pay to PayPay was more prone to decline as of the time of the PayPay 1st Anniversary Campaign, cannot be eliminated.

The NAVER/LINE Group also emphasizes that their market share has decreased to approximately 10% by September of the same year and, therefore, the position (presence) of LINE Pay has declined, and that they have, therefore, lost strong competitive pressure on PayPay. However, as mentioned in the above A, the competitive position of the NAVER/LINE Group is considered to be more powerful than the position indicated by the market share.

C Position of competitors

As per [Table 2] of above 5, a certain level of competitive pressure can be seen in the market of code-based payment services because of the presence of powerful competitors such as A company and B company.

However, as mentioned in B of (2) below, it has been discovered that there were cases where respective members of the Parties concluded member store agreement with member stores, or were requesting member stores to conclude a member store agreement, with exclusive dealing conditions (conditions that prohibit member stores to conclude a member store agreement with other enterprises that provide code-based payment services, the same shall apply

hereinafter). Under circumstances where the Parties requests for an acceptance of exclusive dealing conditions to or imposes the same on member stores, and under circumstances where there is a possibility for conclusion of a member store agreement with exclusive dealing conditions imposed on member stores in the future, if number of member stores, to whom an acceptance of exclusive dealing conditions is requested, or on whom such conditions are imposed, will increase as a result of the integration, the number of member stores that can use code-based payment services provided by competitors will decrease. In addition, in case of code-based payment service, because indirect network effect works between the two fields of trade (namely, code-based payment service for consumers as users and the same for member stores as users), a decrease in the number of member stores, at which code-based payment services of competitors are available, will make the code-based payment services provided by such competitors less attractive to consumers.

Because of such facts, although a certain level of competitive pressure can be observed at this moment, it is considered that the competitive pressure from competitors in the market of code-based payment services for consumers as users will decrease if the number of member stores, who are requested for an acceptance of exclusive dealing conditions, or on whom such conditions are imposed, will increase as a result of the integration.

D Entry

In the market of code-based payment services, there have been many new entrants since 2017 reflecting the movement of the government policy in these few years for promoting cashless payment (during the period from 2018 to 2019, multiple major competitors, including the SBK/ZHD Group that runs “PayPay”, have entered into the market).

However, it seems that such a movement has slowed down since the second half of 2019. In addition, under the circumstances where major enterprises providing code-based payment services have already secured more than 10 million members, a strong financial power to permit extensive cash-back campaigns, etc. is considered necessary to newly enter and to establish a certain level of presence in the market of code-based payment services from now, if the existence of indirect network effect is taken into consideration.

Taking these things into consideration, it is considered that it is not always easy to newly start the business of code-based payment services in the future.

E Competitive pressure from adjacent markets

(a) Competitive pressure from credit cards

As mentioned in the above a of (a) of A of (1) of 4, credit cards are used more often for payments of larger amount compared to code-based payment. Namely, consumers are using those two payment methods differently to a certain extent depending on the amount of payment. However, if there exists such a situation where the use of credit cards decreases as a result of an increase of the use of code-based payment service, and vice versa (namely, the use of code-based payment service decreases as a result of an increase of the use of credit card), it can be considered that the existence of credit cards is working as a competitive pressure to code-based payment services (competitive pressure from adjacent markets).

In this relation, based on the Submitted Data, investigation was made about transition of ratio of payment amount of each payment method (utilization ratio of each payment method) among total monthly payment after April 2019. As a result, a basic tendency was found that the utilization ratio of credit cards had not declined irrespective of a continuous increase in the utilization ratio of code-based payment services but rather had increased along with the increase in code-based payment services during the period from April 2019 till January 2020 (refer to [Table 4]). Based on such facts as above, it is considered that credit cards and code-based payment services are not actively scrambling for customers and that competitive pressure from credit cards is not strong in any way.

[Table 4] Transition of utilization ratio of each payment method (based on payment amount)³⁸

	2019					
	April	May	June	July	August	September
Cash	52.64%	51.14%	50.07%	50.56%	50.42%	46.07%
Credit card	30.90%	31.90%	32.61%	31.37%	31.80%	35.26%
Code-based payment service	1.76%	1.78%	2.47%	3.09%	3.30%	4.04%

	2019			2020	Comparison with the period of April 2019
	October	November	December	January	
Cash	44.64%	42.99%	42.41%	41.58%	(-11.06%)
Credit card	31.60%	34.34%	34.73%	34.67%	(+3.77%)
Code-based payment service	6.87%	6.29%	6.73%	7.30%	(+5.54%)

Meantime, based on the calculation result of diversion ratio at the time of the PayPay 1st Anniversary Campaign, the Parties alleges that (i) the competitive pressure from credit cards is strong because the diversion ratio from credit cards to PayPay is large and (ii) the competitive relationship with credit cards is stronger than the competitive relationship among members of the Parties and the competitive relationship with other code-based payment services because the diversion ratio from credit cards to PayPay is exceptionally larger than that from other code-based payment services to PayPay.

However, in view of the fact that it is possible to consider that the level of diversion ratio has the same effect as that of demand substitutability, the rationality of such an allegation that the competitive relationship between PayPay and credit card is originally stronger than that between PayPay and other code-based payment services (substitutability for credit card is stronger) becomes questionable, if determination until now based on various factors is taken into consideration. In addition, as mentioned in B above, if it is taken into consideration that the PayPay 1st Anniversary Campaign, which

³⁸ The table was prepared by the JFTC based on the Submitted Data.

was an objective of diversion ratio analysis by the Parties, was one-day-only event offering high-value rewards, such a possibility is not deniable that even consumers, who use both credit card and code-based payment services differently, may have been prompted to use code-based payment for relatively large purchases, which are usually paid by credit cards.

Therefore, even if the allegation of the Parties regarding diversion ratio is taken into consideration, it is still inappropriate to consider that the competitive pressure from credit cards is strong.

(b) Competitive pressure from the existence of other cashless payment services

Cashless payment methods other than credit card (payment by electronic money (stored-value card), etc.) has common features with code-based payment in terms of free availability in principle for consumers and the level of payment amount when they are used as means of payment (they are usually used for payment of relatively small amount), etc., and, therefore, it is considered to have a competitive relationship with code-based payment to a certain degree.

However, if we look at the result of diversion ratio analysis based on economic analysis of the Parties, there is no case where users have shifted to PayPay from cashless payment methods other than credit card, with a few exceptions. In addition, according to the result of interviews with enterprises operating other cashless payment services, there are such voices that the purpose of the provision of such payment services by some of those enterprises is an enhancement of the convenience of the users of other services provided by their own group and, therefore, they may not consider the enterprises providing code-based payment services as their competitors. Based on these facts, it cannot be considered that the competitive relationship between code-based payment and cashless payment methods other than credit card is severe.

The Parties also alleges that cases of multi-homing (Multi-homing means to be in a situation where multiple cashless payment methods are used in parallel. The same will apply hereinafter.) by consumers have been increasing. As a matter of fact, it has been confirmed from the result of economic analysis of the Parties that some of consumers using code-based payment service of the Parties are also using other cashless payment methods other than credit card. However, the ratio of users using other cashless payment services other than credit card still remains in the range of more or less 30% for PayPay

users and the same for LINE Pay users. Namely, the popularity of multi-homing among consumers is not considered to be high yet.

Therefore, competitive pressure from other cashless payment other than credit card can be observed to some extent but are not so significant.

F Competitive pressure from users

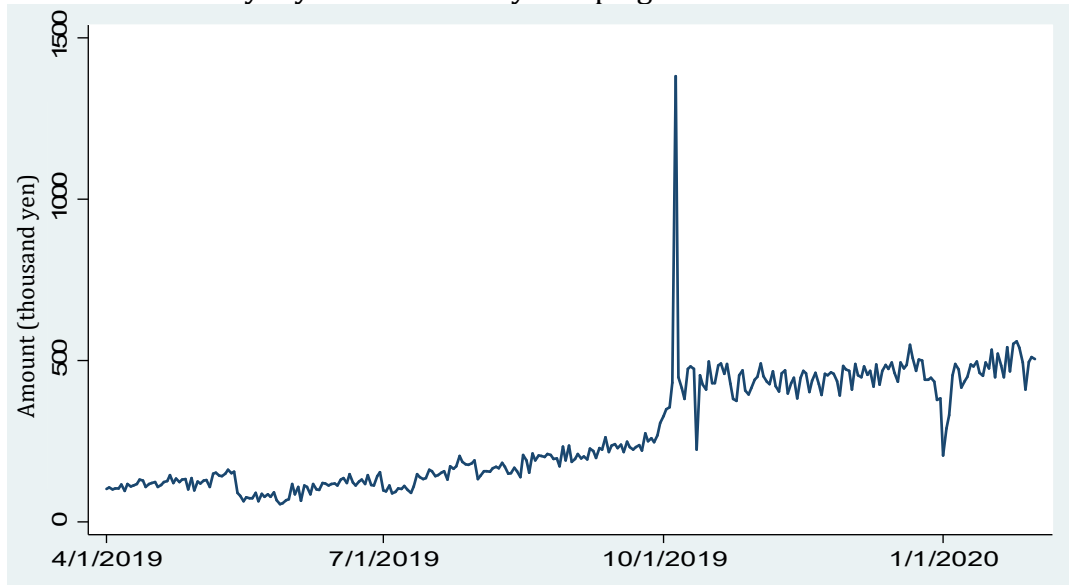
(a) Ease of changing suppliers

For consumers to start using code-based payment services, it only requires the consumer to take procedures such as installation of a dedicated app on his/her smartphone and registration of bank account or credit card to increase (charge) his/her account balance. Therefore, it is relatively easy for consumers to use multiple code-based payment services simultaneously (as a matter of fact, as mentioned above, it seems that consumers are doing multi-homing to some extent).

On the other hand, according to data submitted by the Parties, as of the end of May 2020, approximately 70% of the average of the balance of PayPay account (including rewards points) per each user who used PayPay at least once during May 2020 is unable to be paid out (disbursed) to bank account for encashment (namely, such an amount can only be used for payment of purchases made under PayPay), and even the balance of the account that can be paid out is still subject to a certain fee unless it is paid out through particular designated banking institutions. Therefore, consumers may end up using such an amount for purchases under PayPay. In this relation, if we look at the transition of the amount of payment (payment of small amount) under PayPay before and after the PayPay 1st Anniversary Campaign, we can notice that the amount of each payment under PayPay has substantially increased driven by the said campaign or the campaign caused a structural change, which makes those users who started using PayPay because of the campaign still continue to use PayPay. (refer to [Figure 2]). If these facts are taken into consideration, it is possible to consider that the use of code-based payment (especially in case of PayPay) exerts lock-in effect on consumers to a certain extent.

Therefore, competitive pressure from users is considered workable to a certain extent, but is not very strong in all cases.

[Figure 2] Daily transition of payment amount under PayPay for small transactions at the time of the PayPay 1st Anniversary Campaign based on the Submitted Data³⁹



(b) Existence of cash as alternative means for payment

There also exists cash as means for payment by consumers. Cash is legal tender in which mandatory circulating power (validity as a final means for payment of the face value indicated thereon) inheres under the Act⁴⁰, and its general versatility as means for payment is fundamentally different from that of cashless payment methods such as credit card and others. For the purpose of comparison with code-based payment services, cash is assessed as competitive pressure from users (consumers) in the investigation hereunder, because cash can be considered as an alternative means owned by consumers themselves.

According to analysis of diversion ratio conducted by the Parties, diversion ratio from cash to PayPay is remarkably high. If we look at the transition of monthly utilization ratio of each payment method after April 2019, while the utilization ratio of code-based payment service has increased consistently, the utilization ratio of cash has decreased constantly (refer [Table 4] of the above (a) of E). Therefore, at least under the current market environment, it is in a situation where code-based payment service is taking users from cash on a unilateral basis, and it is difficult to say that existence of cash as an alternative means for payment is working as competitive pressure against code-based payment services. Furthermore, if the market situation as stated in G below is

³⁹ This chart was prepared by the JFTC based on the Submitted Data.

⁴⁰ The Bank of Japan Act (Act No. 89 of 1997) Paragraph 2 of Article 46, Act on Currency Units and Issuance of Coins (Act No. 42 of 1987) Article 7

taken into consideration, the use of cash is expected to continue decreasing also in the future, and competitive pressure from users because of existence of cash is expected to decrease further even in a short-term forecast.

G Concerning the significant growth of market of code-based payment service

As stated in the above 3, the market of code-based payment service has rapidly grown over the past year. The market size as of 2019 has become 2.3 times as large as the size in 2018 and the utilization ratio of code-based payment as of 2019 has become 6 times as large as that of 2018. In addition, since the beginning of 2020, it is said that the use of code-based payment services has been increasing continuously along with an increase of demand for cashless payment methods due to the spread of COVID-19 infection. Thus, it is expected that the code-based payment-related market size and utilization ratio of the same will continue increasing in 2020, even more than the increase in 2019.

According to the result of interviews with member stores, it is said that the number of users of code-based payment services has sharply increased since the time when “Profit return project for cashless payment consumers” was started by the government in October 2019 (data submitted by the Parties also indicate that utilization ratio of code-based payment has almost doubled in October 2019 compared to those of August of the same year⁴¹). The said project ended at the end of June 2020, but a project for dissemination of the unified payment code named “JPQR” has newly started in the same month and “Myna-point Project” will also start in September 2020 to facilitate the expansion of cashless payment market as well as the dissemination of the My Number Card. It is also declared in “Growth strategy follow-up” (cabinet approval of July 17, 2020) that the ratio of cashless payment would be doubled to approximately 40% by June 2025. Therefore, it is considered that the government will also actively implement political measures for promotion of cashless payment including code-based payment.

If these facts are taken into consideration, it is expected that the market relating to code-based payment service will continue remarkable growth.

⁴¹ As means of payment including cash, utilization ratio of code-based payment (on the basis of payment amount) which was around 3.30% in August 2019 has increased to 4.04% in September and to 6.87% in October of the same year.

H Summary

Taking the above facts into consideration, at this time, it is considered difficult to dispel the concern that the Parties will possibly have a power to control the market.

(2) Code-based payment service for member stores as users

A Position of the Parties

There is information that, as a factor to be considered for selection of an enterprise providing code-based payment service, member stores consider the number of users as the most important factor next to the amount of fees imposed on them. Therefore, it can be considered that the Parties is in a remarkably strong position as is the case in the market of code-based payment service for consumers as users. Actually, the number of member stores of the Parties is substantially larger than that of other competitors.

B Position of competitors

Also in a situation where member stores are users, as is the case mentioned in the above C of (1), there are strong competitors in the market of code-based payment service and a certain degree of competitive pressure can be observed.

However, during the course of interviews, a concern was expressed that the Parties had been imposing exclusive dealing conditions on member stores, and existence of actual cases where each member of the Parties had concluded or had been requesting for conclusion of a member store agreement including exclusive dealing conditions imposed on member stores were confirmed. Therefore, although a certain level of competitive pressure can still be observed at this moment, under the circumstances where the Parties requests member stores to accept exclusive dealing conditions or imposes such conditions on them, and where member store agreements imposing such conditions on member stores still possibly continue to be concluded in the future, if the number of member stores, who accept or are requested to accept such exclusive dealing conditions, increases as a result of the integration, it is considered that the number of member stores of code-based payment services provided by competitors will decrease and competitive pressure from competitors will eventually decrease.

C Entry

As stated in the above D of (1), it is considered that the movement in last one year has calmed down, and it seems that new entry would not always be easy in the future.

D Competitive pressure from adjacent markets

The situation mentioned in the above E of (1) stays the same for the case where member stores are users.

In addition, during interviews with member stores, they expressed their belief that the amount of fees imposed on them was most important as a basis for selection of an enterprise providing code-based payment service. There were many opinions saying that whether such fees were lower than those of credit card or not was particularly an important point. Because of this, in code-based payment services for member stores as users, credit card can be considered as competitive pressure in terms of the fact that credit card sets a certain upper limit to the level of fees imposed on member stores for code-based payment (fees cannot be raised to the level higher than those of credit card). As a matter of fact, however, the level of such fees, in which enterprises providing code-based payment services are competing each other, is substantially lower than that of credit cards.

As mentioned in B of (3) below, member stores that satisfy certain qualification requirements can be use the payment services provided by the Parties free of charge until July or around September 2021. On the other hand, many of credit cards and other cashless payment methods require the member stores to pay merchant fees. Under such circumstances, at least for member stores who are exempted from merchant fees, it can be considered that there is almost no competitive pressure from adjacent markets.

Therefore, in case where the member stores are users, it can also be considered that competitive pressure from adjacent markets works to a certain extent but is not substantial.

E Competitive pressure from users

(a) Ease of changing suppliers

As mentioned in the above, in case of the market of code-based payment service for member stores as users, if the existence of indirect network effect from the market of code-based payment service for consumers as users is taken into consideration, it may become difficult for member stores to change from PayPay and LINE Pay to other code-based payment services because

total number of members of PayPay and LINE Pay is substantially larger than that of other competitors. Thus, member stores will have no choice but to use code-payment service provided by the Parties. Namely, even if merchant fees are increased, they have no choice but to accept such an increase.

In this relation, according to the result of interviews with member stores, there were opinions that, even if merchant fees would be raised to a certain extent, it would be practically difficult especially for retail shops to cancel any payment service, for which contract had already been made, in view of the risk of complaint from customers, basically unless the merchant fees would be raised higher than those of credit cards.

In the meantime, the Parties considers that, if the degree of multi-homing at the consumers' end becomes higher, the benefit of member stores to choose any particular payment method becomes smaller and, therefore, member stores will not be locked in the code-based payment service of the Parties. In this relation, the Parties alleges that the multi-homing is becoming popular at the consumers' end. However, as mentioned in the above (b) of E of (1), even though a certain level of multi-homing can be observed at the consumers' end, its level is not considered high. On the other hand, there is also a possibility for consumers to be locked in the code-based payment method which the consumers have once started using (the above (a) of F of (1)).

As described above, competitive pressure from users in the case where member stores are users is limited at this moment.

(b) Existence of cash as alternative means for payment

Based on the market situation as mentioned in the above (b) of F of (1), it is expected that the number of consumers using cash will decrease in the future. Therefore, competitive pressure from users will decrease in the future.

F Summary

Based on the above, it is considered difficult to dispel concerns about the possibility for a situation where the Parties will have control over the market at this moment.

(3) Other factors to be considered because of importance in the course of consideration whether competition is substantially restrained or not

A Existence of internal documents about discussions on an increase of member fee of member stores in association with the decrease of competitors

In this case, the Parties was requested to submit many internal data such as various meeting materials/minutes of meeting of board meetings and management meetings, etc. as well as e-mail, etc. of directors and employees. As a result of detailed examination of such internal documents, we found data that could be considered as a basis for the fact that the Parties was looking into the possibility for raise of merchant fees in view of the decrease of competitors as a result of the conduct of this case.

Based on this fact, it can be considered that there exists an incentive for the Parties to raise merchant fees in the market of code-based payment service.

B The fact that the market of code-based payment service is infant, etc.

In addition to the fact that the government has adopted the policy for dissemination of cashless payment, the fierce competition for dominance in the numbers of users and member stores waged among enterprises that provide code-based payment services through extensive cash-back campaigns run by such enterprises is considered as a part of the reasons for such a remarkable growth of the market of code-based payment service in such a short period of time. As a result, all of the major enterprises that provide code-based payment services ended up with a big loss in operating expenses.

On the other hand, regarding payment service fees set by each enterprise that operates code-based payment service, while there are some cases where certain level of fees are charged to large-scale retail shops, there are also many cases where member stores are exempted from such fees. Thus, those enterprises that provide code-based payment services are not in a position to be able to earn a profit therefrom. Particularly, in case of PayPay of the SBK/ZHD Group, most of member stores are exempted from the payment service fees and such exemption is scheduled to continue until September 30, 2021. Also in case of LINE Pay of the NAVER/LINE Group, substantial number of member stores are exempted from the payment service fees, and such exemption is scheduled to continue until the end of July 2021.

Like this, the market of code-based payment has not matured yet at this moment and will be in quite severe condition in terms of the future growth and environmental changes. Therefore, based on the data and materials available at

this moment for the investigation, it seems that we are not in a position to be able to forecast the future market situation accurately.

C Assessment of data

(a) Assessment of current data

In case of the code-based payment service provided by the Parties, unlike the case of advertising business, only the data obtained through the operation of code-based payment service are basically used for enhancement of service quality and data obtained through the operation of other services or businesses are not used, while there are some cases where information in relation to common ID of platform services provided by respective members of the Parties (sex, telephone number, etc.) is used. Furthermore, in the event of any use of information obtained through other businesses or services, however, a strict protection and management system is considered necessary on a continuous basis as stated in the above D and E of (2) of 4 of Part 5.

In this relation, regarding the type of information, it is considered that there is no particularly unique information that is obtainable only through the services provided by the Parties. However, while competitors in the field of advertisement-related business are in a position comparable to or even stronger than that of the Parties, positions of competitors in the field of code-based payment services are substantially lower than that of the Parties. If these facts are taken into consideration, the Parties has an advantage in terms of the volume and range of data as well as frequency of collection thereof compared to those of competitors. Thus, the probability of influence on competition in code-based payment services as a result of such an advantageous position is undeniable.

(b) Assessment of data after integration

According to the Parties, they say that they have not established any concrete plan for integration/sharing/utilization of data obtained through operation of other businesses after the integration. In other words, they do not know yet how such data obtained through other businesses will be utilized for code-based payment service (or how the data obtained through code-based payment service will be utilized for other businesses), etc. after the integration.

As for the code-based payment service, while the position of the Parties in the market after the integration is expected to be considerably substantial, it is considered undeniable that there is a possibility for further improvement

in business capability of the Parties depending on the method of integration/sharing/utilization of data in the future by the Parties in addition to the future changes in market conditions.

(4) Concerning substantial restraint on competition as a result of coordinated conduct

Even if the position of the Parties is taken into consideration, if the modestly large number of competitors, etc. is also taken into consideration, it is not considered that coordinated conduct will result in substantial restraint on completion.

(5) Legal assessment based on the Antimonopoly Act

Based on the above, the JFTC concluded that the conduct of this case may not immediately substantially restrain competition in the market of code-based payment services where either consumers are users or member stores are users through unilateral conduct or coordinated conduct of the Parties. However, if circumstances as mentioned in the above (1) through (3) are taken into consideration, it is considered impossible to completely dispel the concern about the possibility of the situation where the Parties can rather easily and freely control trade conditions including prices, etc., depending on the manner of handling of exclusive dealing conditions, behavior of the Parties after integration of utilization of data, etc. and conditions of the future market, etc.

7 Proposal of remedial measures from the Parties

In response to the comment as mentioned in the above (5) of 6, the following remedial measures (hereinafter referred to as “Remedial Measures”) have been proposed by the Parties.

(1) Regular report and consideration of necessary remedial measures

The Parties⁴² will make a report on the following points once every year for three years after the conduct of this case. In addition, when the Parties receives any comment on the content of the report hereunder from the Commission about the possibility for substantial restraint on competition or the risk of impeding fair competition in the market of code-based payment service, the Parties will discuss

⁴² For the period after the conduct of this case, in view of the fact that both of ZHD and LINE are consolidated subsidiary companies of SoftBank, the NAVER Group is not included in core members of the proposal for the Remedial Measures.

with the JFTC and will study countermeasures depending on the content of the comment.

A Market size of code-based payment service, position of the Parties and competitive situation, etc.

B Matters concerning merchant fee which is set by the reporting company⁴³

C Matters concerning utilization of data relating to code-based payment service

(a) When data obtained by the reporting company from users in the course of use of code-based payment services are utilized by the Parties for the purpose of any business other than code-based payment service, contents and utilization methods of such data.

(b) When data obtained by the reporting company from users in the course of use of code-based payment services are utilized by the Parties for the purpose of code-based payment service, contents and utilization methods of such data.

(c) When data obtained by the Parties from users in the course of any business other than code-based payment services are utilized by the reporting company for the purpose of code-based payment service, contents and utilization methods of such data.

(2) Removal of exclusive dealing conditions

Not later than the execution date of the integration hereunder, trade conditions of member store agreement with member stores shall be modified to eliminate any exclusive condition (conditions to prohibit member stores from making member store agreement with any enterprise operating code-based payment service other than the reporting company), provided, however, that, in the event of an agreement for which the reporting company considers that there is rational grounds for the existence of exclusive dealing conditions, a separate discussion with the JFTC about the maintenance of such conditions shall not be interrupted. Also, for a period of three years from the execution date of the integration

⁴³ This means PayPay Corporation and LINE Pay Corporation (or, if the business of the code-based payment service operated by PayPay Corporation and LINE Pay Corporation is transferred to or succeeded by other company of the Group of the Parties, the said other company). The same shall apply hereinafter.

hereunder, any exclusive dealing condition shall not be imposed on member stores, provided, however, that, in the event of a business relationship for which the reporting company considers that there is rational grounds for the existence of exclusive dealing conditions, a preliminary and separate discussion with the JFTC about the existence of the said conditions shall not be interrupted.

Furthermore, the implementation status of the response hereunder will be reported together with the report of the above (1).

8 Assessment of the Remedial Measures

(1) Concerning the regular report and consideration of necessary remedial measures

Although the regular reports themselves cannot be appreciated as remedial measures that can revitalize the competition eliminated by business combination, it can be considered as appropriate remedial measures that help the Commission understand better about behavior of the Parties after the integration and the future market conditions.

In this relation, assuming the situation where, based on findings of the regular reports, the Commission may raise any concern about the possibility for substantial restraint on or the risk of impeding fair competition in the market of code-based payment service, it has been proposed that, depending on the contents of such concerns, the matters will be discussed with the JFTC to prepare countermeasures. Thus, the necessary response to competition-related concerns, which may be created by behavior of the Parties and the future market conditions after the integration of data utilization, etc., has been secured with a certain level of effectiveness.

Furthermore, while exemption of merchant fees is scheduled to be in effect for those member stores satisfying a certain requirements until July or around September 2021, the period of three years can also be considered appropriate, in view of the fact that a certain reporting period has been secured even after the end of the said period and that study of data utilization, etc. after the integration seems to require a certain period of time after integration.

(2) Concerning removal of exclusive dealing conditions

Because of the fact that the Parties will remove exclusive dealing conditions from member store agreements with member stores by the effective date of integration hereunder, and that any agreement including exclusive conditions will not be concluded for three years after the conduct of this case, concerns about the possibility for a decline of effectiveness of competitive pressure in the future will

be dispelled. Therefore, in view of the practical effectiveness of remedial measures to prevent the Parties from exercising the market power in the future, such remedial measures can be considered to be appropriate. In addition, regular reports to the Commission on the state of implementation of the Remedial Measures is considered to be appropriate from the viewpoint of the monitoring of implementation of the Remedial Measures.

9 Summary

As described above, based on the premise that the Parties will implement the Remedial Measures, the JFTC concluded that the conduct of this case would not substantially restrain competition in code-based payment services.

Part 7 Conclusion

As a result of its review, based on the premise that the Parties will implement the Remedial Measures, the JFTC concluded that the conduct of this case would not substantially restrain competition in particular field of trade.