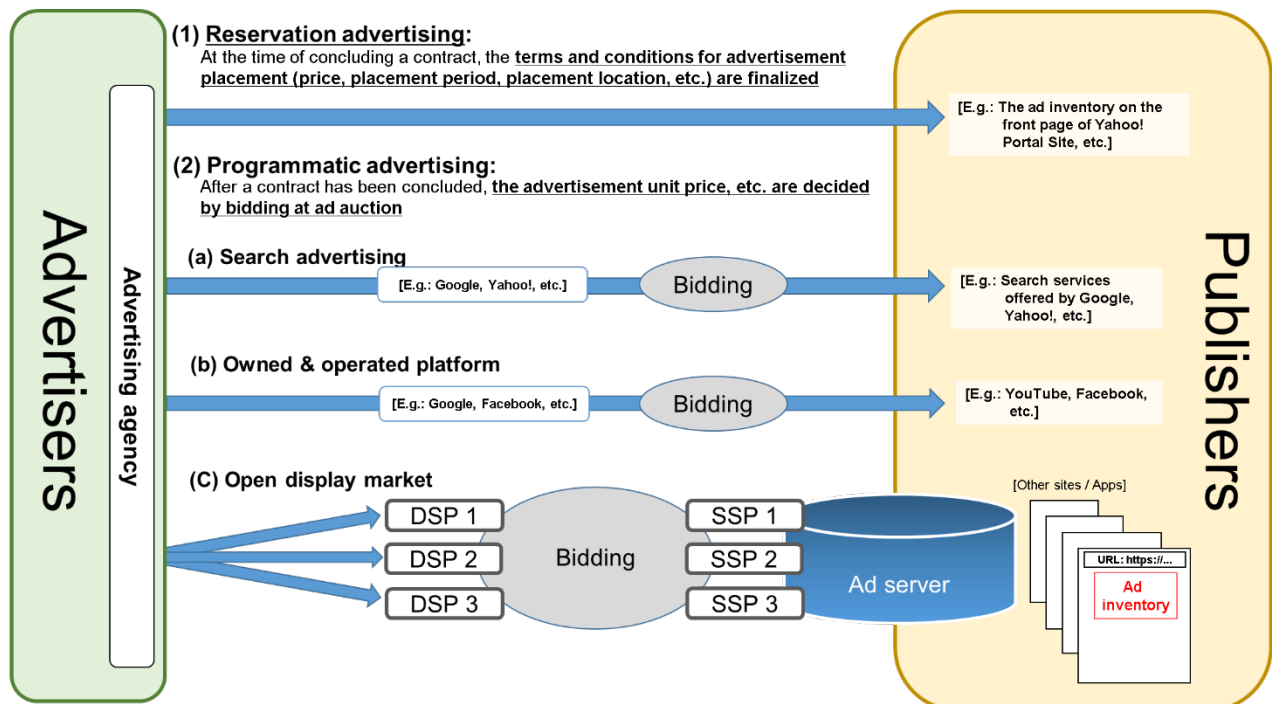


Interim Report on the Evaluation of Competition in the Digital Advertising Market Summary

1. Market overview

- The digital advertising market is comprised of publishers who sell advertising spaces on their own websites and/or apps, advertisers who purchase advertising spaces and place ads, and platform operators (PFs) and advertising technology companies, who mediate between them.
- Digital advertising expenditure is growing year by year. It surpassed television media advertising (approx. 1.9 trillion yen) for the first time in 2019, reaching an annual amount of 2.1 trillion yen (a year-on-year increase of 119.7%). It now accounts for roughly 30% of all advertising expenditure in Japan (approx. 6.9 trillion yen).
- Targeted advertising, which analyzes various data and delivers ads tailored to individual preferences, and other new technologies have been developed rapidly.
- At the moment when an individual views a website, advertising spaces provided by publishers on their own websites and/or apps and ads submitted by advertisers are matched, and the matched ads are delivered in real time by a highly complex system. Bid transactions take place instantly in vast numbers.
- Initially, functional specialization (of functions supporting sellers and functions supporting buyers, for example) occurred as many advertising technology companies providing digital advertising technologies entered the market. However, vertical integration later advanced as a result of acquisitions by PFs that engage in matching.



2. Characteristics and issues in the digital advertising market

- **Issues relating to competitive environment:**

- With regard to the businesses that mediate advertising transaction, there are claims that advertisers tend to choose PFs possessing media capable of appealing to many consumers (e.g. YouTube in the case of Google) while publishers providing advertising spaces tend to choose PFs that cover many advertisers, so that network effects function on both sides and the market becomes oligopolistic.
 - There are concerns that data is becoming concentrated within certain PFs and oligopolization is accelerating as data distribution becomes restricted due to privacy protection.
 - Consequently, the influence of certain PFs is growing in terms of market design and operation.
- Sudden rule changes and system modifications by PFs leave no room for negotiation and are burdensome for advertising technology companies and others.
- Data on how consumers responded to advertisers' ads (i.e., audience data) is not sufficiently provided to advertisers by PFs.

- *Sixty percent of advertising technology companies feel there are problems and concerns with a certain PF when system changes are made.*

Reason: "Sudden system changes are burdensome to respond" (47%)

**Multiple responses*

Source: Questionnaires by the Japan Fair Trade Commission.

- **Issues relating to market transparency:**

- The complexity of overall system and extremely rapid changes cause difficulty for the parties concerned to grasp market conditions. In particular, matching by real-time bidding is handled on the system with algorithms, resulting in much opaqueness (black box).
- Lack of transparency in transaction details and prices.
- As a result of the vertical integration of functions in advertising intermediation, there are concerns of conflicts of interest and preferential treatment of own media by PFs.

- *40% to over 60% of related businesses are concerned about PFs' preferential treatment for their own media*

*Advertising technology companies: 64%, publishers: 54%,
advertisers and ad agencies: 40%*

Source: Questionnaires by the Japan Fair Trade Commission.

- **The problem of "quality" in the digital advertising market:**

- Amid the rapid development of digital advertising, there are various problems in the quality of services provided in the digital advertising market.
- For advertisers, there are problems including inflating the number of views, etc.

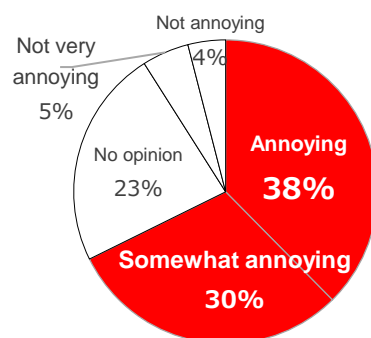
by automated programs (bots) (ad fraud), the risk that ads will be delivered to websites that could damage the brand, and instances when ads are not viewable for consumers because they are not sufficiently displayed. There is also dissatisfaction that the number of views (which is the basis for billing) is not objectively measured by a third party.

- For publishers, there are complaints of poor transparency in transaction details; specifically, there are concerns that revenue is not being properly distributed to them, as they cannot see how much advertisers paid for their advertising space. There are concerns that, if this situation continues, the business base of media companies investing time and money in creating contents will be eroded.
- Seventy percent of consumers feel that targeted advertising is annoying or somewhat annoying.
- Consumers providing data used in targeted advertising are concerned about the handling of personal data.

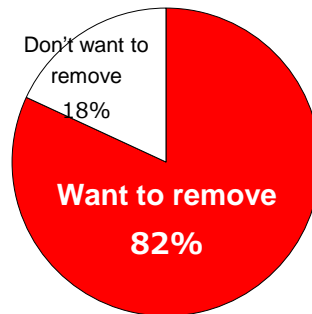
- *Sixty percent of advertisers and ad agencies are dissatisfied with the ad fraud countermeasures by a certain PF*
- *More than 50% of publishers feel there are problems and issues with a certain PF in terms of supply chain transparency.*
*Reason: "Better transparency is needed for transaction details and prices" (42%), "Better transparency is needed for handling fees and costs" (39%) *Multiple responses*

Source: Questionnaires by the Japan Fair Trade Commission.

- *Seventy percent of consumers feel that targeted advertising is annoying or somewhat annoying.*



- *Eighty percent of consumers would want to remove targeted advertising if they could change settings in advance.*



*Source: Questionnaires by the Consumer Affairs Agency
Note: Both are for search websites. A similar trend is seen for shopping platforms.*

Basic principles to deal with the issues

- 1) From the standpoint of ensuring a sound development of the digital advertising market, establish as key elements the three points of (1) securing “fairness”, (2) improving “transparency”, and (3) through these steps, ensuring the “availability of choice” for the parties concerned in the market including general consumers.
- 2) Understanding that it is a rapidly changing market, build a framework that encourages solutions through innovation rather than excessively inhibiting innovation.
- 3) Implement responses from a cross-cutting perspective that takes into account the effects that responses to concerns about personal data handling ultimately have on the market competition.

3. Issues in the digital advertising market and directions to address them

The followings are assumed to apply to some large PFs. However, items marked with an asterisk (*) are assumed to apply to concerned businesses in general.

Transparency

Issue 1: Quality-related problems in the digital advertising market

Service “quality”-related problems exist in such areas as inflation of number of views (ad fraud), posting of ads on inappropriate sites (brand safety), ads not being seen by consumers (viewability), and unpleasant consumer experiences (user experience). Competition that enhances “quality” should be encouraged.

- Disclosure of easier-to-understand information concerning the above “quality” and its monitoring. Introduction of mechanisms that allow tracking of transactions among concerned parties (transaction ID, etc.)

Issue 2: Lack of transparency in prices, transaction details, etc. (including problems that it is hard for publishers' content value to be reflected)

Regarding publishers' complaints concerning whether they are receiving appropriate revenue for their advertising spaces, the proper presentation of quality in the digital advertising market to advertisers would make it possible for high-quality delivery destinations to be highlighted. A mechanism that allows advertisers and publishers to ascertain actual purchase prices and selling prices should also be pursued. In addition, access to information such as successful tender prices in bidding in an appropriate form should be permitted.

- Measures to deal with Issue 1 (Disclosure of "quality"-related information, introduction of mechanisms for transaction IDs, etc.). Ensuring appropriate access to information such as successful tender prices.

Issue 3: Measurement of indicators on reach and viewability, etc., by a third party

The reach and viewability of advertising display provides the basis for billing. To maintain the objectivity of this information, measurement by a third party should be accepted, rather than relying solely on reports from PFs. Furthermore, the ability for advertisers to compare this information in a cross-cutting manner among PFs is indispensable in allowing them to evaluate PFs and make appropriate choices.

- Acceptance of third-party measurements of achieved indicators, use of open APIs that include those necessary for this purpose, acceptance of connections through them, and disclosure of reasons in cases of refusal

Data utilization

Issue 4-1: Data acquired using overwhelming customer touchpoints, etc.

When companies' own search engine is set as the default search engine on devices that use their OS and browsers, they gain strong advantages in the digital advertising market by using a vast amount of data acquired through their search services. Steps must be taken to develop an environment that permits competition on a level playing field in the search business and to help create a competitive environment in the digital advertising market.

- Establishment of an option screen on which users can set default search service (Additionally, the "data portability" mentioned in Issue 10 is assumed to apply to data relating to search history.)

Issue 4-2: Restrictions on data provision by PFs, etc. (the "walled garden" problem)

Some advertisers complain that they do not get sufficient audience data for the ads they placed from PFs. This restriction on access to data must be addressed from the standpoint of ensuring the fairness of transactions in relation to advertisers who provide customer lists, etc. to PFs. Moreover, there are concerns that such restriction will make it difficult for advertisers to make comparisons among the PFs and other operators, and that competition in the DSP market will become distorted as a result.

- Provision of audience data to advertisers, use of open APIs that include those necessary for this purpose, acceptance of connections through them, and disclosure of reasons in cases of refusal

(More discussion should be promoted among the parties concerned, on which audience data should be provided in a manner that also takes privacy concerns into account.)

Issue 4-3: Problems attributable to transparency in the ways data is used within PFs

As data utilization within PFs is becoming increasingly opaque, there are concerns that data might be used for operators' self-preference, etc. as a result of vertical integration, and greater transparency is thus required.

→ Building of mechanisms whereby the transparency and fairness of in-house data use conditions within PFs are ensured, disclosure of those mechanisms, and monitoring of these measures

Vertical integration

Issue 5: Conflicts of interest

PFs providing both a DSP service to pursue advertisers' interests and an SSP service to pursue publishers' interests can have "conflicts of interest" that sacrifices the interests of one side to pursue the interests of the other. The current situation—including what is being done to address this concern—appears ambiguous from outside.

→ Fulfillment of measures such as internal discipline and programmatic measures by PFs, disclosure of the measures, and monitoring of these

Issue 6: Self-preference (design specifications for bidding, etc.)

A PF that provides the ad servers (servers for distributing ads, etc.) used by most publishers is in a position of wielding great influence on the design and operation of bid rules. It also possesses SSP and DSP. Thus, there are concerns that it might give preferential treatment to itself in the design and operation of bids. There are also concerns of preferential treatment to its own media. Therefore, guaranteeing fairness and transparency is necessary from the standpoint of eliminating concerns like ones in the design and operation of bid rules.

→ Fulfillment of measures such as internal discipline and programmatic measures by PFs, disclosure of the measures, and monitoring of these

Issue 7: Restriction of access to own media

In the past, advertising technology companies other than Google could provide intermediation in transactions for advertising spaces on YouTube; however, Google discontinued this in 2016. In some cases, this might make it difficult for competitors to easily secure alternative opportunities in the advertising intermediation market, which could raise costs of business activity.

→ The reasons why Google has restricted access to YouTube must be clarified and the justification of those reasons must be verified. (See Issue 8 for perspectives concerning future rule changes by certain PFs.)

Fairness in procedures, etc.

Issue 8: System changes and rule changes by PFs

There are claims that PFs do not leave room for negotiations and do not provide sufficient explanation when making a system change or rule change. This must be addressed from the standpoint of ensuring the fairness of transactions.

→ Determination of appropriate action by the Japan Fair Trade Commission when problems are suspected in terms of the Antimonopoly Act

Prior notification and disclosure of reason when changes are made, and ensuring the fairness in procedures (e.g., sufficient prior explanation and coordination, etc.)

Issue 9: Search engine parameters

Changing search engine algorithms can bring detriment to publishers, such as adversely affecting management, by displaying a publisher's site at a lower position or imposing an excessive burden in achieving optimization with respect to the algorithm. There are also complaints that sufficient prior explanation is not provided and that responses to circumstances in specific countries are not adequately made.

→ Disclosure of major search engine parameters, prior notification and disclosure of reason when changes are made, establishment of domestic consultation desks, and monitoring of these

Consumers' perspective

Issue 10: Concerns about the collection and use of personal data

Concerns about the collection and use of personal data include the followings.

- 1) Are explanations to consumers and consumer consent for collection and use of data functioning effectively?
 - (a) Transparency in the collection and use of data
 - (b) Effectiveness of consent controls
- 2) Is it necessary to demand that operators engage in appropriate consideration and handling in view of the cognitive limit of consumers?

→ 1) (a) Transparency: Scope of collected data and method for collecting data, status of internal management of data, provision of information concerning utilization in data integration and profiling, etc. / monitoring of how transparency is addressed

(b) Effectiveness of consent controls:

Easily understandable privacy policy and opt-out procedure*

Presentation of prior setting and periodic notification, or prevention from using targeted advertising by default

Provision of the option to use services even when consumers do not permit the collection and use of personal data

Disclosure of the terms and conditions for accepting data portability, disclosure of reasons in case of unacceptance

/ monitoring of these

- 2) Operators determine the necessary guidelines, etc. about the cases when targeted advertising is not allowed even when consumers' consent has been obtained.*

4. Future actions

- This is a broad compilation of the content of basic principles, issues in the digital advertising market, and directions to address them that is conceivable at the present time. It was prepared by taking the views of concerned parties into consideration. A detailed study on how rules should be developed will follow.
- We will solicit comments and opinions concerning this interim report. We will also continue conducting interviews with concerned operators, experts, and others as well as opinion exchanges with overseas authorities. We will prepare and release the final report this winter that will include details on how to address the issues.