

Philosophy and Discussions Behind the Marketplace Principles

Introduction

This document is a record and explanation of the discussions leading to the formulation of Mercari, Inc.'s (hereinafter "Mercari") Marketplace Principles (hereinafter "Principles"), which outline Mercari's fundamental stance regarding its C2C marketplace (hereinafter "marketplace"). This paper also looks at how the interpretation of the Marketplace Principles has evolved in response to changing societal conditions since their establishment.

In recent years, C2C marketplaces have gained importance as platforms that facilitate the smooth transaction of items between individuals and promote the effective utilization of resources. However, as their influence has grown, new issues not previously anticipated have also surfaced.

One significant catalyst for these issues was the COVID-19 pandemic beginning in early 2020. Amid a global shortage of hygiene products such as face masks, certain secondary market transactions drew criticism for aggravating scarcity and facilitating price gouging. Although many of these transactions were not technically illegal, their ethical appropriateness was questioned from the perspective of public safety and welfare.

The pandemic highlighted the limitations of marketplace operators in simply judging transactions as "legal or illegal," and underscored the need for criteria to determine if there are some technically legal transactions that should be restricted in order for the platform to fulfil its expected role in society. The absence of such criteria at the time often led to situations where social media controversies would compel hasty discretionary decisions on individual issues without due assessment. This led to the recognition that new rules, or "principles," were needed to serve as a transparent and consistent decision-making standard.

Based on this idea, in July 2020, Mercari established the "Expert Panel on the Future of Marketplaces," inviting external experts from various fields such as economics, corporate ethics, and ESG. This document explains how panel discussions progressed to form the Marketplace Principles in January 2021. This paper also serves as a record and explanation of how Mercari has responded to societal changes and developed its principles through sustained discussions in forums such as the subsequently established Advisory Board.

Chapter 1: Deliberation System Supporting the Formulation of the Principles

In formulating the Marketplace Principles, Mercari strived to incorporate objective and multifaceted opinions by establishing a conference body that included both internal staff and external experts.

Section 1: Establishment of the "Expert Panel on the Future of Marketplaces"

The direct impetus for formulating the Principles was the significant societal shift caused by the COVID-19 pandemic around May 2020. At the time, with hygiene products such as face masks and rubbing alcohol in short supply nationwide, Mercari received backlash that some items traded on the marketplace app were aggravating shortages and price gouging.

Until this period, discussions within Mercari regarding listing standards primarily focused on the legal aspect, specifically, whether an item was "legal or illegal." However, during the pandemic, legal transactions began to draw criticism, prompting Mercari to establish a new basis for value judgment, separate from legal norms, to decide whether certain items could be listed. At the same time, Mercari placed discretionary listing bans on specific items, which highlighted the risk of ad-hoc responses.

Against this backdrop, Mercari recognized the need to develop a principled approach (the Principles) to serve as consistent criteria for judging which items can be listed on the marketplace app.

To do this, Mercari launched a cross-functional project comprising internal teams for further discussions. The result was that, since the marketplace plays a crucial role for many people, marketplace standards should not be determined solely from an internal perspective, and it was determined that a fair and transparent discussion process that incorporated objective and diverse viewpoints would be necessary to gain trust from various stakeholders.

As an institution for this purpose, in July 2020, Mercari invited leading external experts in fields such as economics, corporate ethics, and ESG to establish the "Expert Panel on the Future of Marketplaces." The purpose of this panel was to discuss in detail the more universal nature of marketplaces from diverse perspectives, while also directly addressing the issue of responding to supply and demand pressures during the COVID-19 pandemic. Efforts were also made to ensure transparency of discussions by publishing summaries of the proceedings on Mercari's website.

(Reference: Meeting Summary Publication Page <https://about.mercari.com/principles/>)

Section 2: The "Advisory Board" as a Forum for Continuous Discussion

The Principles are not a fixed set of rules that are complete once formulated; they must be constantly reviewed and revised as times change and values shift. To this end, the "Advisory Board on the Future of Marketplaces" was established as a forum to facilitate continuous discussion that includes external experts. Advisory Board meetings are held regularly.

This Advisory Board includes not only experts who participated in the formulation of the Principles but also media experts and consumer representatives to provide new perspectives. Its role is broadly divided into two parts. First, to review how the Principles are being applied from an external perspective and verify their effectiveness. And second, to discuss how the

existing Principles should be interpreted and appropriately applied to new issues that have emerged since the formulation of the Principles (e.g., issues concerning the listing of specific popular items, or listings involving individual privacy concerns). Through such continuous dialogue, Mercari continues to adapt the Principles to changing times and situations, maintaining their versatility and effectiveness.

Chapter 2: Philosophy and Process of Formulating the Principles (General Discussion)

This chapter explains the background leading to the formulation of the Principles and the process used during discussions. It starts by revisiting the social role and function generally held by marketplaces, and then explains the theoretical framework introduced to analyze exceptional cases where markets fail to function.

Section 1: First Starting Point of Discussion: Redefining the Economic Value of Marketplaces

To solidify the philosophical foundation of the Principles prior to their formulation, discussions by the expert panel began with a very fundamental question: what economic role does the secondary market inherently play, and where does the source of its value lie?

When unwanted items, or items with dormant value, are exchanged and become something valuable to others, the lifecycle of items is extended and resources circulate more efficiently. First, the panel confirmed that successfully striking a balance between supply and demand through free transactions between sellers and buyers with diverse values through this process is at the heart of "resource allocation efficiency (value as a free market)," and this is the value provided by the marketplace.

Therefore, the panel established a shared understanding that creating a platform to maximize opportunities for free individual transactions, i.e., a platform that maximizes the number of matches between supply and demand is indispensable for achieving Mercari's mission of "Creating a global marketplace that generates new value." Ultimately, this approach is crucial for developing a circular economy where limited resources are used carefully.

Section 2: Second Starting Point of Discussion: The Necessity of Formulating the Principles

During the COVID-19 pandemic starting in early 2020, there was a major discrepancy in the supply and demand for specific items, such as face masks. At the time, some raised criticisms that in such situations where the balance between supply and demand is significantly disrupted, the mechanism of free transactions may not always exert its maximum value.

As described above, prior to formulating the Principles, decisions regarding the permissibility of listings were primarily based on whether the item was legal or illegal. However, in the unprecedented situation of the COVID-19 pandemic, C2C transactions that were legally unproblematic also frequently drew severe criticism from many users. As a result, Mercari found itself needing to establish marketplace guidelines based on a new set of values distinct from legal regulations, in order to clearly communicate its decisions as a platform.

Therefore, Mercari established the "Marketplace Principles" that systematize the basic "philosophy" of the marketplace—a higher-level concept that underpins our individual rules such as terms of service and guidelines. These Principles are not for the purpose of directly prohibiting specific items but rather to serve as a fundamental philosophy that should be referenced by all participants of the marketplace when establishing or revising individual rules.

Section 3: Exceptional Cases of Market Failure and Their Analysis

The marketplace demonstrates its value by efficiently delivering items to those who need them. However, there are exceptional cases where the underlying market mechanism fails to function effectively under specific circumstances, potentially proving disadvantageous to many people.

Transactions involving face masks during the COVID-19 pandemic is precisely one such example. Panel discussions focused on what criteria should be used to judge and address such exceptional situations. Instead of relying on ad-hoc judgments without clear principles, the panel determined that it was crucial to establish a consistent and fair decision-making framework for everyone. To this end, discussions were narrowed down to two specific concepts:

1. Analysis of "Externality" and Clarification of Conditions for Intervention

As a typical cause of market failure, the concept of "externality," which refers to the impact on people other than the parties involved in the transaction—and ultimately on society as a whole—was introduced as an important analytical perspective.

Discussions in the expert panel particularly focused on how to handle items that generate a measurable positive effect (positive externality) beyond the transacting parties, such as face masks during the COVID-19 pandemic, where their use reduces the overall risk of infection in society. Typically, for items with neutral externality, free market transactions maximize the benefits for both the buyer and seller involved. On the other hand, items with positive externality, like face masks, provide not only private benefits for the buyer, such as reduced risk of infection, but also public benefits, such as preventing that individual from infecting others.

In an emergency where such items with positive externality are in severe short supply, an increased volume of trading on the secondary market adds unnecessary distribution stages, and therefore can delay the delivery of essential items to people. It has been noted that this delay could diminish the public benefit that should be gained through rapid adoption of the item—such as infection prevention through face mask use.

The panel established that intervention and exceptional restrictions on free trade should not be based solely on reasons like "prices are soaring" or "being criticized," but rather should be limited to situations where impacts on "externality" have been confirmed as the logical basis for such action.

2. "Harm Principle" and "Offense Principle"

If the response to "positive externality" discussed in the previous section established the grounds for intervention to protect public interest, the next question concerns the negative impact (negative externality) that transactions have on parties other than the buyer and seller involved. Specifically, discussions addressed what type and what level of "negative impact" could justify intervention in individual free transactions. To establish this baseline, the expert panel discussed both the "harm principle" and its contrasting concept, the "offense principle."

Harm Principle: This is the idea that Mercari, as the operator, is permitted to intervene in and restrict an individual's free activities (in this context, freedom of transaction) only when that action causes specific and clear "harm" to the rights or interests of others. "Harm" here refers to obvious disadvantages such as direct danger to life or body, financial damage from fraud or stolen items, or infringement of intellectual property rights. The important point of this principle is that setting the presence or absence of objective "harm" as the standard for intervention prevents the operator from intervening in individual free transactions based on ad-hoc judgments.

Offense Principle: This is the idea that even if an action does not cause specific "harm" to others, it can still be subject to restriction if it arouses feelings of discomfort or disgust, or is deemed ethically unacceptable. This principle uses more fluid and subjective elements such as moral values, ethics, and public opinion at the time as judgment criteria.

Among the opinions received by Mercari, many were rooted in feelings of discomfort or disgust rather than objective harm. The feeling of being deprived of the opportunity to buy an item at the regular price, while not a direct financial loss, leads to a strong negative emotion of unfairness felt by many people. In the expert panel, careful consideration was given to what extent such emotions should be incorporated as judgment criteria.

As a result of the discussions, regarding the offense principle, multiple experts expressed difficulty in quantifying subjective "discomfort" and determining whose "discomfort" should be considered. Ultimately, it was decided that the principles would not directly incorporate the offense principle.

Through these detailed analyses, the panel concluded that the judgment for intervention as stated in the Principles should be based on the harm principle, which can serve as a more objective and clear standard. That is, the marketplace should exercise its authority and actively intervene in individual transactions only when the items being traded or actions associated therewith have a high probability of directly and clearly infringing fundamental rights such as the life, body, or property of others. This judgment clearly demonstrated Mercari's values as a platform operator. This conclusion forms the core of the Principles detailed in the next chapter.

Chapter 3: Marketplace Principles as the Outcome of Discussions

Based on the multifaceted analysis and discussions presented in the previous chapter, we formulated three principles to guide the marketplace. These principles are independent yet mutually complementary, forming a consistent framework for judging complex phenomena. This chapter explains the background discussions and core content of each principle.

Section 1: "Safety"

1. The Core of the Principle: Direct Reflection of the Harm Principle

Above all, a safe environment is essential for free transactions to take place on *Mercari*. From this perspective, "safety" represents the basic idea that the marketplace should be a platform that all users can use with peace of mind. This principle is founded on the harm principle explained in the previous chapter.

In other words, Mercari's intervention and restriction of transaction freedom are justified only when the transaction has a high probability of causing specific harm to the life, body, property, etc., of others. Examples of such transactions include:

- Transactions of items with a high probability of causing harm to life or body.
- Transactions of items with a high probability of leading to illegal or criminal acts.
- Transactions of essential items related to the safety of life and body or the maintenance of health in an emergency, which are required to be delivered to as many people as possible as quickly as possible, but are in severe short supply.

This is the most important rule for maintaining the health of the marketplace, and we believe that the value of free transactions can only be established when this "safety" is ensured.

2. Expansion of the Principle: Ensuring Public Safety by Incorporating the Perspective of "Positive Externality"

The principle of "safety" does not refer only to preventing direct harm to users' bodies or property. Through discussions in the expert panel, a broader perspective emerged that incorporates the concept of "positive externality," explained in the previous chapter, in this concept of "safety." What this means is that, in emergencies like the COVID-19 pandemic, essential items like face masks provide not only benefits for the purchaser (preventing individual infection) but also the "positive externality" of suppressing the spread of infection to people other than the transacting party.

For items such as face masks, which needed to be delivered to as many people as possible as quickly as possible during the COVID-19 pandemic, a surge in the number of transactions on *Mercari* indicates active use of the secondary market and thus the possibility that items may not reach people as quickly as possible. A delay in distribution means that the good effects of the positive externality mentioned above can no longer be realized.

The expert panel viewed "the loss of good effects for parties other than the transacting parties" itself as a type of harm that, albeit indirectly, undermines the overall safety of society. In other words, the panel determined that even when individual transactions are legally unproblematic, the cumulative effect of these transactions can threaten the overall safety and health of society, in which case the transactions result in harm that the platform cannot overlook.

Section 2: "Humanity"

1. Starting Point of the Principle: Non-Adoption of the "Offense Principle"

The principle of "humanity" emerged from discussions about when a platform should intervene. In the course of these discussions, it was noted that the public criticism of reselling often stemmed from subjective emotions such as "unfair" or "dislike." The expert panel concluded that in a free marketplace used by users with diverse values, a subjective feeling like "discomfort," which is ambiguous and situationally variable, should not be used as a basis for enacting rules.

2. Towards a Higher Norm: Respect for Individual Values and Positions

However, the discussion did not end by merely concluding that "discomfort" should not be a reason for intervention. It was argued that even in cases that do not amount to concrete "harm" to body or property, individual values and positions should be respected in a marketplace used by people with diverse values.

Therefore, the experts confirmed the necessity of prohibiting discrimination and threats against individuals, and established the principle of "humanity" as a standard aiming to objectively garner common understanding. Examples of such discrimination and threats include:

- Transactions or acts that promote discrimination based on race, ethnicity, religion, gender, etc.
- Slander, threats, etc.

In other words, this principle aims to protect individual values and positions in the marketplace, which are not fully covered by the "harm principle," which targets direct safety and property protection.

Section 3: "Trustworthiness"

1. Positioning of the Principle: Building a Practical Market Foundation

Unlike transactions between individuals and businesses (B2C), a C2C marketplace like *Mercari* involves individuals with diverse backgrounds trading unique items between themselves, making mutual trust indispensable. This trust forms the foundation for users to participate in transactions with peace of mind.

Therefore, the principle of "trustworthiness" was established based on the idea that users must be provided with accurate information about items and transactions, and that transactions must be conducted in good faith.

2. Specific Elements Constituting Trust

This principle aims to prevent market risks and ensure the basis of all transactions—trust. Specifically, it prohibits acts that fundamentally undermine the reliability of transactions, such as:

- Transactions where item details are unclear or item information is falsified.
- Refusing returns even if there is a problem with the item.
- Listing items that the seller does not actually possess.
- Listing items not for the purpose of sale.

With these specific prohibitions as a guide, it was deemed essential to maintain a healthy marketplace where users can trade freely and with peace of mind.

Chapter 4: Application of the Principles and New Issues (Specific Discussions)

The three fundamental principles are not merely ideals but practical guidelines for responding to the ever-changing specific phenomena of the marketplace. This chapter first explains how these principles have been applied to actual cases since their formulation, with specific examples. Next, it clarifies the process by which we have deepened interpretation of the principles and sought new responses through discussions by the Advisory Board, in response to changes in the economic environment and societal trends.

Section 1: Specific Cases of Applying the Principles

Since their formulation, the Principles have served as a consistent guide for decision-making at *Mercari* regarding various phenomena. Here, we will present two specific cases and explain how the principles were applied.

1. Response to Essential Items – Intervention to Ensure Overall Safety in Society

A symbolic example demonstrating the application of the principles is our response regarding essential items, relating to the safety of users' life and body and health maintenance.

Hygiene products during the COVID-19 pandemic (March 2020): For face masks and rubbing alcohol, which were the catalyst for the formulation of the Principles, the "safety" principle was applied from the perspective of "positive externality" detailed in Chapter 2. The stagnation of products in the secondary market and the inability to deliver them quickly to those who truly needed them was considered "harm" that undermined overall societal safety, leading to a temporary ban on listings.

No-bid contract stockpiled rice (May 2025): A similar approach was taken for transactions involving stockpiled rice sold to retailers via a no-bid contract system. Despite the fact that this rice was being sold by private companies with the aim of providing a stable supply to consumers during a general rice shortage—and therefore should reach as many people as quickly as possible—we determined it to be an essential item in severely short supply, and imposed a ban on listings based on the "safety" principle.

2. Response to Non-Essential Items (Popular High-Demand Products) – Non-Intervention based on "Offense Principle" and Information Provision

In contrast to essential items, different judgments have been made for popular hobby and entertainment-related items. We introduce an example of a highly sought-after item that was globally scarce immediately after its release in 2020. While opinions were raised regarding high-priced transactions for this item, Mercari made the following judgment in light of the Principles:

First, this item is not an essential item, and based on the harm principle mentioned above, transacting the item does not cause specific and clear "harm" to the life or body of others. Second, it does not possess "positive externality" that benefits parties other than the transacting parties, like face masks. For these reasons, it was concluded that the platform should not directly restrict transactions based on the "safety" principle. This was based on the Principles' philosophy of using the presence or absence of objective "harm" as the judgment criterion, rather than subjective "discomfort."

However, not intervening in transactions does not mean doing nothing. To address the risk of users making irrational decisions amidst extreme supply-demand imbalances, Mercari chose another approach: providing information to support purchasers' decisions to purchase. Specifically, a "price alert function" was introduced to warn potential buyers about products significantly exceeding their suggested retail price.

This was implemented as a measure to protect users by bridging the information gap between sellers and buyers, while respecting free transactions based on the "trustworthiness" principle.

Section 2: Deepening Discussions on the Interpretation of the Principles

There have been some cases of transactions of items not prohibited by the safety, trustworthiness, and humanity principles negatively affecting user peace of mind and safety. Therefore, the Advisory Board agreed that, while upholding the principle of prioritizing a free marketplace, actions would be taken outside of that framework.

Environmental Changes After Formulating the Principles

Increased negative impact on the safety and security of the marketplace has become apparent from various perspectives. For example, the Advisory Board noted that some users who engage in appropriate transactions of items in severe supply shortage are exposed to criticism and slander, causing them anxiety. Furthermore, user concern is growing over fraudulent listings that exploit buyers' desire for immediate purchases, tricking them into making mistaken purchases.

Formulation of Response Policies Outside the Principles

Against the backdrop of these environmental changes, we began to recognize an important issue: relying solely on the Principles risked leading to a situation where users could no longer participate in our marketplace with peace of mind. While making decisions based on the Principles ensures consistent marketplace operations, we must avoid any results that undermine user peace of mind and safety.

In response to this, the Advisory Board discussed policies from a perspective different from the previously established Principles. This involved creating a framework to take measures, including listing bans, for individual cases at Mercari's discretion—upholding the Principles but operating outside their framework. This does not in any way change the Principles but rather acknowledges room for separate judgment while firmly recognizing the Principles as important guidelines.

To ensure the peace of mind and safety of the marketplace, it was ultimately decided to take measures, including listing bans, against items that have the potential to significantly undermine user peace of mind and safety within the marketplace, such as items associated with a surge in fraudulent listings or incidents, or extreme price fluctuations.

Conclusion

Mercari's Marketplace Principles, detailed in this document, are not a fixed set of rules that are completed once formulated; they must be constantly reviewed and revised through ongoing dialogue with users and experts in response to changing societal trends.

In the process of formulating the Principles, Mercari faced the fact that judging items based on the conventional binary of "legal or illegal" alone would not allow us to sufficiently fulfill the role expected of us as a platform operator. Our discussions with external experts of diverse perspectives, examining concepts such as "externality," the "harm principle," and the "offense principle," were aimed at establishing a consistent and transparent basis for judgment, rather than responding to individual cases on an ad-hoc basis.

As discussed in Chapter 4, increased negative impact on the peace of mind and safety of the marketplace posed more complex questions than initially anticipated. Tackling these questions led to the exploration of new concepts to ensure trust while maintaining the Principles. As a result of our discussions, we decided to establish a new framework to address significant risks related to the peace of mind and safety of the marketplace as a separate entity outside the scope of the Principles.

This continuous process of discussion is at the core of the Principles. Moving forward, we will continue to verify the application and appropriateness of the Principles and address new challenges through ongoing dialogue via forums such as the Advisory Board on the Future of Marketplaces.

Mercari's mission is to "circulate all forms of value to unleash the potential in all people." To achieve this, it is essential to maintain a diverse and free marketplace while ensuring that the marketplace remains a safe, trustworthy, and humane place for all participants. We will continue to operate our marketplace in earnest, guided by the Principles, and engage in transparent discussions about our interpretation and application of the Principles to meet stakeholder trust.