



Information Asymmetry, Good Corporate Governance, and Deferred Tax Expenses Affect Earnings Management

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Abstract

Profit control is an action taken by company management to change financial statements to make them appear more favourable to stakeholders. This is, of course, influenced by various factors, including internal factors as well as external factors. In this research, the author intends to analyse external factors using information asymmetry proxies for earnings management, while the internal factors that the author raises are corporate governance, or good corporate governance, as well as financial reports in the form of deferred tax expenses. This research aims to analyse the influence of information asymmetry, institutional ownership, size of the board of commissioners, and deferred tax burden on earnings management practices in the corporate context. This study uses financial data of companies listed on the stock exchange and performs statistical analysis to identify the relationship between the variables mentioned above and earnings management practices. The data used comes from a certain period, covering various industries. The data analysis method uses quantitative descriptive analysis, classical assumption testing, multiple linear regression analysis, and hypothesis testing. The findings indicated that institutional ownership information asymmetry, deferred tax expense, and board size did not significantly affect earnings management, even though board size had a favourable and significant influence. The board of commissioners' size, however, has a favourable and noteworthy impact. At the same time, there is no discernible impact on earnings management from the knowledge asymmetry of institutional ownership, board size, or deferred tax expense.

Keywords: information asymmetry, good corporate governance, deferred tax expenses, earnings management

Kode JEL:

1. Introduction

The aim of establishing a company is to achieve profits. In meeting the profit targets to be achieved, company management takes actions known as profit management (Yahya & Wahyuningsih, 2020). Earnings management actions can be carried out through financial reports because financial reports are a tool for conveying financial information to users of financial reports, both internal and external parties (Yustiningarti & Asyik, 2017). Management is frequently driven to produce financial reports that are manipulative to increase share prices, show that financing agreements are being followed, meet investor expectations and company projections, and secure financing or

terms that are better than those of the current financing (Repousis, 2016). As a result, management engaging in fraudulent activity is not unusual.

Compared to shareholders, management, as business managers, has access to more information and can learn about the state of the company more quickly. This allows management to carry out accounting practices oriented towards profit figures which will result in low quality of reported profits, causing errors in decision-making (Barus & Setiawati, 2015).

Financial report fraud affects practically every company in the globe, including those in Indonesia. There is always a risk of fraud (ACFE, 2014). Since Indonesia continues to have a high corruption index, indicating that opportunistic behaviour is still prevalent there, it is easy to locate several instances of false financial reporting there, such as PT KAI, Kimia Farma, Bank Lippo, PT Hanson International, and PT Garuda Indonesia. 10% of the financial reports for the time under examination contained fraudulent activity, according to the findings of the Association of Certified Fraud Examiners' (ACFE) 2018 Report to the Nations survey. According to ACFE Indonesia (2019), there were 239 occurrences of fraud reported in this nation, of which 16 (or 6.7%) included financial statements. In reference to the media findings, 93 participants, or 38.9%, indicated that the financial media had the greatest impact in exposing fraud in Indonesia. Thus, exploring earnings management in Indonesia will always be an interesting issue (Narsa et al., 2023).

Several cases of profit manipulation have occurred in large companies in Indonesia. The first is the case of PT Garuda Indonesia (Persero) Tbk's financial report, the financial performance of which, at an exchange rate of Rp14.300 per US dollar, managed to post a net profit of US\$809 thousand in 2018 or the equivalent of Rp11,56 billion. The performance of the corporation in 2017, which lost US\$216,58 million, or Rp3,09 trillion, is inversely related to this circumstance. The state-owned airline really lost US\$114,08 million, or Rp1,63 trillion, in the third quarter of 2018. The company recorded receivables from cooperation transactions with PT Mahata Aero Teknologi (Mahata) regarding the provision of in-flight WiFi connections as revenue in the 2018 financial report, with a value of US\$239.94 million. This decision drew rejection from two Garuda Indonesia commissioners, namely Chairal Tanjung and Dony Oskaria, who are representatives of PT Trans Airways as Garuda Indonesia shareholders with ownership of 25.61 per cent. The Indonesian Stock Exchange (BEI) summoned Garuda Indonesia to ask for an explanation of the transaction. Not only that, the stock exchange authority also asked for an explanation of the transaction from the Financial Accounting Standards Board (DSAK) and the Indonesian Accountants Association (IAI) in order to gain views on the Garuda Indonesia and Mahata transactions (Pangestuti & Setyawan, 2019).

Several factors are considered to influence earnings management, including information asymmetry, institutional ownership, size of the board of commissioners and deferred tax burden. When managers have greater knowledge of internal data and the company's prospects than owners and other stakeholders, information asymmetry results. It is believed that knowledge asymmetry is what leads to earnings management (Hernando, 2019). In general, companies will tend to minimize reported profits with the aim of reducing the amount of tax that must be paid. When managers have access to more internal firm information than owners and other stakeholders, information asymmetry results. When there is an information imbalance, managers will be more likely to provide

false information, particularly when that information pertains to evaluating the manager's performance.

There have been several studies conducted by previous researchers regarding earnings management which is influenced by information asymmetry variables, where in these studies it was found that there were differences in results or gaps. Information asymmetry has a positive effect on earnings management. It is not surprising that managers frequently attempt to promote their accomplishments through the degree of profit or profits achieved, as earnings management is intimately linked to the achievement or profit level of a company (Yustiningarti & Asyik, 2017). The likelihood of earnings management increases with the degree of information asymmetry. Given the numerous opportunities for profit management that managers might take advantage of, a control system that can balance the divergent interests of managers and shareholders is required. A potential solution to this issue is the adoption of a corporate governance framework (Zakia et al., 2019). However, a different opinion states that there is no influence between information asymmetry and earnings management (Yustiningarti & Asyik, 2017).

In addition to the aforementioned factors, the following also influence earnings management: corporate governance, including institutional ownership and board size. The high of institutional ownership will lead to greater monitoring efforts by institutions so that the greater the institutional share ownership, the greater the possibility of hindering earnings management (Yustiningarti & Asyik, 2017). Meanwhile, the Board of Commissioners is tasked with ensuring the implementation of the company's strategy, supervising management in managing the company, and requiring accountability. The likelihood of earnings management decreases as the proportion of the board of commissioners increases (Prastiti & Meiranto, 2013).

Differences in research results are also found in the institutional ownership variable, (Feronika et al., 2021) asserting that the management of earnings is negatively impacted by institutional ownership. A greater concentration of institutional ownership is associated with a reduction in the use of earnings management strategies by the business. Meanwhile, the lower the concentration of institutional ownership, the higher the influence of earnings management, thereby increasing management's desire to practice earnings management. Some researchers state that institutional ownership does not affect earnings management (Luthan et al., 2016; Zakia et al., 2019).

Moreover, previous research on earnings management, which was influenced by the variable size of the board of commissioners, yielded disparate results. the board of Commissioners size significantly improves profit management (Rizka, 2019). This study differs from that of Pramitha (2021), which concluded that the size of the board of commissioners does not impact earnings management. On the other hand, according to Luthan et al. (2016) the size of the board of commissioners hurts profit management.

The deferred tax burden is another element that affects earnings management. Several studies conducted by previous researchers regarding earnings management which were influenced by the variable deferred tax burden found differences in results or gaps. According to research, deferred tax charges have a favourable impact on profits management (State & Suputra, 2017). According to studies, deferred tax charges have little bearing on profit management strategies (Nursiam & Nilam, 2020).

If the tax burden is felt to be too heavy for the company, then management can encourage it to overcome it in various ways, one of which is by manipulating the company's profit data. Deferred tax expenses cause the level of profit earned to decrease, thereby reducing the amount of tax paid. This leaves a space for management to manipulate results, namely by inflating net profit to lower the amount of taxes the business will have to pay (Barus & Setiawati, 2015).

Analysis of the effects of institutional ownership, deferred tax burden, size of the board of commissioners, and information asymmetry on profits management is the goal of this research. An analysis of earnings management is provided by this roadmap research (Yahya & Wahyuningsih, 2020), with a study of tax planning and deferred tax assets. Next, the author intends to examine good corporate governance related to institutional ownership and the board of commissioners in influencing earnings management.

2. Methods

2.1. Hypothesis Development

Information Asymmetry on Earnings Management

The higher the information asymmetry between management and shareholders will affect the level of earnings management, management has more information than shareholders (*Principal*), this is based on agency conflict, namely misalignment between the interests of management and shareholders. Where management has an interest in the prosperity of the company and personal interests so that in managing the company management requires access to more information from shareholders. Consequently, management is afforded greater latitude to influence financial reports, particularly those pertaining to profits, which are employed to advance personal interests or enhance the company's market value (Feronika et al., 2021) proving that information asymmetry has a positive effect on earnings management. This means, if information asymmetry increases, then earnings management will also increase (Wijaya et al., 2017; Yustiningarti & Asyik, 2017). Based on the theory from previous research, the hypothesis developed in this research is:

H1: Information asymmetry has a positive effect on earnings management.

Institutional Ownership of Earnings Management

The significant portion of a company's shares held by institutions (such as the government, foreign businesses, and financial organisations like banks, insurance, and pension funds) is known as institutional ownership (Suta et al., 2016). Theoretical frameworks such as agency theory suggest that the existence of institutional ownership gives rise to supervisory efforts that larger institutional investors can hinder managers' opportunistic actions and force managers to continue to act in accordance with the wishes of the principal (shareholders). It can be observed that a high level of institutional ownership will result in a more robust supervisory function that is capable of preventing opportunistic behaviour on the part of management. This in turn will lead to enhanced operational performance and reduced incidence of effective earnings management practices. It can be demonstrated that institutional ownership has a negative impact on earnings management; therefore, a higher degree of institutional ownership is expected

to result in fewer earnings management strategies being employed by the business in question (Feronika et al., 2021). Based on the description above, the hypothesis developed in this research is:

H2: Institutional ownership has a negative effect on earnings management.

Size of the Board of Commissioners on Profit Management

The total number of internal and external members that make up the board of commissioners for the corporation is known as the board's size. A larger number of members on the board of commissioners may lead to lower business performance. This can be explained by the agency problem, which is that as the number of commissioners on the board increases, it gets harder for them to do their jobs. This includes communicating with one another and organising the board's activities. Another challenge is managing management supervision responsibilities. The firm that will result in a decline in the performance of the company. The larger the size of the board of commissioners, the greater the fraud in financial reporting (Syahrani, 2019). The large size of the board of commissioners is considered less effective in carrying out its functions because it is difficult to communicate, coordinate and make decisions. Based on this description, the hypothesis proposed by the researcher is as follows:

H3: The size of the Board of Commissioners has a positive effect on earnings management.

Deferred Tax Expenses on Profit Management

An accounting concept known as "deferred tax" refers to the amount of a company's tax liability that is shown in its financial statement position for a specific time frame. The amount of income tax due for the upcoming period as a result of temporary taxable differences is known as deferred tax expenditure. One can identify accrual engineering targeted at tax minimization by comparing the accounting profit and fiscal profit. There is a higher likelihood of management engaging in earnings management when there is a wider disparity between fiscal and accounting profit (Tampubolon, 2019). Deferred tax payments improve profit management strategies. The delayed tax burden has a positive effect, which means that the likelihood of the business managing its earnings will rise with each increase in the deferred tax expenses (Negara & Suputra, 2017; Sules Jayanti et al., 2020). Temporary differences arise from the accrual and operating cash flow components. Because of the existence of temporary differences, deferred tax expense influences efforts to detect the effect of accrual engineering to minimize taxes in earnings management. Based on the explanation above, the following hypothesis can be concluded:

H4: Deferred tax expenses have a positive effect on earnings management.

Information Asymmetry, Institutional Ownership, Board of Commissioners Size, and Deferred Tax Expenses on Profit Management

Several previous researchers have shown that there are factors that have a significant influence on earnings management practices. Bonus payments and information asymmetry have a major favourable impact on earnings management, while corporate governance mechanisms have an insignificant effect in a positive direction (Yustiningarti & Asyik, 2017). According to Baradja et al (2017), their research on the influence of deferred tax expenses, tax planning, and tax assets on earnings management reveals that

deferred tax expenses and the disclosure of profit management are positively influenced by tax planning and deferred tax assets. Other factors such as managerial ownership, institutional ownership and the size of the board of commissioners also influence earnings management, so information asymmetry, institutional ownership, both the deferred tax burden and the size of the board of commissioners have an impact on profits management. The following hypothesis may be deduced from the previous explanation:

H5: Information Asymmetry, Institutional Ownership, Board of Commissioners Size and Deferred Tax Expenses Influence Earnings Management

2.2. Data Collection

This research uses quantitative data, quantitative research is a research approach that connects or compares one variable with another variable, and the resulting data is numerical or numerical (Ismail, 2018). This research uses secondary data, secondary data is data obtained indirectly and from certain parties who have collected the data (Riyanto & Hatmawan, 2019). Secondary data in this research was taken from the financial reports of manufacturing companies for the 2016-2020 period which were listed on the Indonesia Stock Exchange (BEI).

An instance of earnings management (Y) occurs when management steps in during the financial report-writing process for outside parties to stabilise, boost, or drop profits (Yahya et al., 2023; Yahya & Wahyuningsih, 2020). The proxy used to measure earnings management is discretionary accruals.

$$DA_{it} = (TA_{it} / A_{it-1}) - NDA_{it} / A_{it-1} \dots \dots \dots 1)$$

Asymmetry in Information (X1), a scenario known as information asymmetry arises when the principal lacks sufficient knowledge about the agent's performance, making it impossible for the principal to assess how much the agent's efforts contributed to the real firm outcomes. (Karnawati, 2018)

$$SPREAD = (ask_{it} - bid_{it}) / \{(ask_{it} + bid_{it}) / 2\} \times 100 \dots \dots \dots 2)$$

Institutional ownership (X2) The percentage of a company's shares held by institutions (government, foreign businesses, financial organisations including banks, insurance, and pension funds) is known as institutional ownership (Suta et al., 2016)

$$IO = \frac{\text{Number of institutional shares}}{\text{Number of shares outstanding}} \times 100\% \dots \dots \dots 3)$$

Size of the Board of Commissioners (X4) Size of the Board of Commissioners is the number of boards of commissioners in a company (Leksono et al., 2019) Number of members of the board of commissioners in the company.

Deferred Tax Expense (X5), the amount of income tax due in subsequent periods as a result of transient taxable differences is known as deferred tax expenditure.

$$DTE = \frac{\text{Deferred tax expense } t}{\text{Total asset } t-1} \dots \dots \dots 4)$$

This research uses a *purposive sampling technique* in collecting data. *Purposive sampling* is a non-random sampling technique with a specific aim or target (Indriantoro & Supomo, 2018) . In this research, the sample companies studied were manufacturing companies listed on the Indonesia Stock Exchange (BEI).

Table 1. Research sample criteria

No	Sample criteria	Amount
1.	Population of manufacturing companies for the 2016-2020 period	179
2.	Manufacturing companies that are not listed on the Indonesian Stock Exchange for the 2016-2020 period.	(38)
3.	Manufacturing companies that do not report financial reports for the 2016-2020 period.	(28)
4.	Manufacturing companies that do not publish financial reports using the rupiah currency during the 2016-2020 period.	(25)
5.	Manufacturing companies that reported losses during the 2016-2020 period.	(38)
6.	Manufacturing companies that do not have complete data required for the 2016-2020 period.	(35)
Research sample		15
Total sample (N) = 15 x 5 years		75

The companies used as samples were manufacturing companies listed on the Indonesia Stock Exchange in 2016 - 2020 with a sample size of 75 out of 15 companies according to the sample criteria. This research includes information asymmetry data related to share prices, Good Corporate Governance which is used by institutional ownership and the size of the board of commissioners, and the deferred tax burden. Earnings management uses discretionary accruals data.

2.3. Analysis Methods

Data analysis methods have the aim of conveying and limiting findings to become organised and structured data and more meaningful. (Mulyanto & Wulandari, 2019). This study uses quantitative analysis methods with multiple linear regression analysis methods assisted by the SPSS program. The multiple linear regression analysis method is used to examine the effect of information asymmetry, institutional ownership, the board size, and deferred tax expense on earnings management in manufacturing companies listed on the IDX. To determine the effect of each variable, various tests must be carried out. Tests carried out for data processing use descriptive statistical analysis, classical assumption test, multiple linear regression analysis, and hypothesis testing, namely model feasibility test, determination coefficient test, and partial test.

3. Results

3.1. Descriptive statistical analysis

The test results show that the standard deviation values for all variables are smaller than the mean value. This shows that the sample data is less varied. For the variable number of board of directors, the average value is 4.57, which means that the average number of board of commissioners in the companies studied is 5 people. Meanwhile, for earnings management, it can be explained that the sample data has a minimum value of -0.0284 and a maximum value of 0.5746 and an average of 0.1085. A negative value for earnings management indicates that the company has attempted to reduce profits, while a positive value for the company has attempted to increase profits.

Table 2. Results of descriptive statistical tests

	Min	Max	Mean	Std. Dev
SPREAD	,4598	18.8679	3.664449	3.5089454
IO	13.9680	88.1083	62.989893	19.6950959
SBC	3,0000	8,0000	4.573333	1.5697593
DTE	,0000	,0109	,002166	,0020771
DA	-,0284	,5746	,108500	,0860596

Source: SPSS output, data processed 2024

3.2. The coefficient of determination test

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Table 5. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,348	,121	,071	,0829533	1,517

Source: SPSS output, data processed 2024

Based on Table 5, the test results show that the value obtained for R² on Adjusted R Square is 0.071 or 7.1%. This means that information asymmetry, institutional ownership, size of the board of commissioners, and deferred tax burden have an effect of 7.1%. Meanwhile, the remainder, namely 100% - 7.1% = 92.9%, is explained by factors other than the variables studied.

Table 4. Simultaneous test results (F test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,066	4	,017	2,411	,057 ^a
	Residual	,482	70	,007		
	Total	,548	74			

Source: SPSS output, data processed 2024

Based on the f test results in Table 4, and the f table value in Table 4.15, it can be seen that the sig. 0.057 > 0.05 alpha (α) and calculated f value 2.411 < 2.74 f table. Although it is not significant at the 5% test level but still significant at the 10% test level so that the model can be accepted

An indication of not carrying out earnings management practices when the discretionary accrual value is equal to zero.

Table 5. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-,012	,046		-,259	,796
SPREAD	,001	,003	,025	,212	,833
IO	,000	,001	,082	,707	,482
SBC	,016	,006	,297	2,506	,015
DTE	9,695	5,074	,234	1,911	,060

Source: SPSS output, data processed 2024

In the results of multiple linear regression analysis, the following equation is obtained:

$$Y = -0.12 + 0.01ASM + 0.000KI + 0.016UDK + 9.695BPT \dots \dots \dots 5)$$

Based on Table 3, it can be explained for the partial test as follows: 1) Based on the test results, it can be seen that the sig. of information asymmetry (X1) is 0.833 > 0.05 and the t value is 0.212 < t table 1.994, which means that information asymmetry (X1) does not affect earnings management (Y), so it can be concluded that hypothesis 1 is rejected. 2) Based on the test results, it can be seen that the sig. of institutional ownership (X2) is 0.482 > 0.05 and the t value is 0.707 < t-table 1.994, which means that institutional ownership (X2) does not affect earnings management (Y), so it can be concluded that hypothesis 2 is rejected. 3) Variable size of the board of commissioners (X3) on earnings management (Y). 4) Based on the test results, it can be seen that the sig. The size of the board of commissioners (X3) is 0.015 < 0.05 and the t value is 2.506 > t table 1.994, which means that institutional ownership (X3) affects earnings management (Y), so it can be concluded that hypothesis 3 is accepted. 4) Based on the test results, it can be seen that the sig. of the deferred tax burden (X4) is 0.060 > 0.05 and the t value is 1.911 < t table 1.994, which means that the deferred tax burden (X4) does not affect earnings management (Y), so it can be concluded that hypothesis 4 is rejected.

4. Discussion

4.1. The Influence of Information Asymmetry on Earnings Management

Based on the research results, information asymmetry does not affect earnings management, therefore, H1 is rejected. The results of this study align with those of (Nursiam & Nilam, 2020), who found no evidence that information asymmetry affects earnings management. The existence of information gaps between management, shareholders and other stakeholders can result in accounting methods being misused to increase profits. This, in turn, can lead to a decline in earnings quality. It can also result in high levels of earnings management being carried out by managers, with the consequence that financial reports may contain misleading information for users (Mustika, 2019).

Nevertheless, the evidence does not support (Harahap, 2018) which demonstrates that knowledge asymmetry has a major beneficial impact. Typically, decision-making uses profit information as a foundation or guidance. Because of this, consumers often only

view profit information in the profit and loss report, which skews financial reporting. Consequently, managers of banking companies may then offer financial reports that are both incorrect and irrelevant. Earnings management is the term for this activity. Earnings management is therefore evaluated using accruals that are proxies for discretionary accruals – that is, accruals that are subject to change based on management directives. In information asymmetry, managers might use earnings management to affect the accounting figures shown in financial reports.

4.2. The Influence of Institutional Ownership on Profit Management

Institutional ownership does not affect earnings management, therefore, H2 is rejected. The findings of this study align with Zakia et al. (2019), which indicates that institutional ownership does not affect earnings management. This may be attributed to the fact that institutional ownership is less effective in motivating management to enhance performance, minimise earnings management, and produce high-quality earnings reports. Institutional owners are more concerned with the long-term success of the company than with short-term profits. This suggests that the level of institutional ownership is not effective as a tool for controlling financial reporting and influencing the market through profit data (Mustika, 2019).

4.3. The Influence of the Size of the Board of Commissioners on Earnings Management

The size of the board of commissioners has a significant positive effect on earnings management, so H3 is accepted. This demonstrates that the size of the board of commissioners has a favourable impact on earnings management. This implies that financial reporting fraud increases with the number of commissioners. The findings of this study corroborate earlier research by Rizka (2019), which found that the board of commissioners size positively affects profit management. The possibility of earnings management is greater in companies with large boards of directors because research shows that boards of directors with numbers ranging from four to six members are more effective, allowing them to make strategic decisions quickly.

Corporate governance mechanisms are analyzed to examine their impact on earnings management practices and the conclusion is drawn that among various corporate governance proxies, only the size of the board of directors plays an important role in limiting earnings management practices (Sajjad et al., 2019). The research results are not in line with (Aleqab & Ighnaim, 2021), the size of the board of commissioners does not influence earnings management practices (Malik, 2015). This means that the size of the board of commissioners does not indicate that the company is carrying out earnings management practices because not all commissioners agree with this practice.

4.4. The Effect of Deferred Tax Expenses on Earnings Management

The results showed that deferred tax expense does not effect earnings management, so H4 was rejected. The results of this research support previous research conducted by Nursiam & Nilam (2020) and Kanji (2019) which claimed that earnings management strategies are unaffected by deferred tax costs. Although it has little impact on earnings management, deferred tax cost might be used as a signal to spot it. This research also proves that earnings management does occur to avoid reporting losses in companies listed on the Indonesian Stock Exchange. However, according to research (Bunaca &

Nuryadi, 2019) deferred tax expense is one component in detecting earnings management practices. Managers tend to carry out earnings management practices using their policies and usually, managers will follow accounting standards rather than tax laws and regulations in making these policies and managers will look for loopholes in accounting standards that are appropriate to increase company income. Management behaviour will result in higher temporary book-tax differences, causing higher deferred tax burdens because management tends to increase company income without paying attention to applicable tax laws and regulations, hence it stands to reason that profits management will result from increasing deferred tax loads. policies implemented by management to boost business revenue.

5. Conclusion

The research results found that institutional ownership information asymmetry and deferred tax burden do not affect earnings management. Meanwhile, the size of the board of commissioners has a positive influence on earnings management. These results indicate that the more commissioners there are, the more interest there is in the company so that it can improve earnings management practices. A board of commissioners that is too large can also have difficulty overseeing management effectively. This can create gaps that management can exploit to carry out earnings management.

The research implications show that earnings management practices can be influenced by corporate governance, company financial reports, and information asymmetry. The limitations of this research are the research period in companies from 2016-2020, thus limiting the number of samples used. It is hoped that future researchers can add research samples and examine earnings management practices with variables outside the research variables, such as CEO narcissism, intangible assets, intellectual capital, and accounting conservatism, and so forth.

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