GOLDMAN SACHS, MORGAN STANLEY, and MERRILL LYNCH -- Applications by Goldman Sachs and Morgan Stanley to become bank holding companies and authorizations to increase liquidity support for certain securities subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch.

Discussed.
Approved.
Issuance of orders authorized.
September 21, 2008.

Today, the Board considered applications by the following organizations to become bank holding companies: (1) The Goldman Sachs Group, Inc. and Goldman Sachs Bank USA Holdings LLC (together, Goldman Sachs), both in New York, New York, on the conversion of Goldman Sachs Bank USA, Salt Lake City, Utah, from an industrial loan company to a state-chartered bank; and (2) Morgan Stanley, Morgan Stanley Capital Management LLC, and Morgan Stanley Domestic Holdings, Inc. (together, Morgan Stanley), all in New York, New York, on the conversion of Morgan Stanley Bank, also in Salt Lake City, from an industrial loan company to a bank.

In the ensuing discussion, it was noted that under the Bank Holding Company Act, newly formed bank holding companies had two years to divest impermissible nonbanking activities, with the possibility of three one-year extensions of the divestiture period. It was also expected that the extent of the required divestitures for these companies would depend in large measure on whether they elected to become financial holding companies after becoming bank holding companies. Thereupon, the Board approved the applications of Goldman Sachs and Morgan Stanley to become bank holding companies and authorized issuing orders, with the concurrence of the chairman of the Committee on Supervisory and Regulatory Affairs, to reflect its actions.

Board members also discussed the need for additional liquidity support for Goldman Sachs and Morgan Stanley, during their transition to managing their funding within the structure of a bank holding company, and to Merrill Lynch & Company, Inc., (Merrill Lynch), also in New York. It was noted that the Board retained the authority to revoke such support, if warranted by market conditions.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit, as described below, (1) to the U.K. broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch and (2) to the primary-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch, if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit

accommodations from other banking institutions. Credit extensions under these authorizations must be fully secured to the satisfaction of the New York Reserve Bank and must be secured by the types of collateral accepted (1) at the Primary Dealer Credit Facility (PDCF) by the Reserve Bank, for the U.K broker-dealer subsidiaries, and (2) at the primary credit facility for depository institutions or at the PDCF by the Reserve Bank, for the primary-dealer subsidiaries. The New York Reserve Bank may also impose such additional conditions on any extension of credit as the Reserve Bank deems appropriate. In addition, the Board approved the recommendation of the New York Reserve Bank that credit to Goldman Sachs, Morgan Stanley, and Merrill Lynch be extended at the primary credit rate. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on November 3 and approved a periodic report to the Congress updating this action by notation voting on December 29, 2008.)

Participating in these determinations and voting for these actions:
Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.

Background: Proposed resolutions, September 21, 2008.

Implementation: Resolutions and orders, September 21; press releases, September 21 and 22; and letter from Mr. Frierson to Morgan Stanley, September 22, 2008.

Periodic Report Pursuant to Section 129(b) of the Emergency Economic Stabilization Act of 2008: Update on Outstanding Lending Facilities Authorized by the Board Under Section 13(3) of the Federal Reserve Act December 29, 2008

Overview

Pursuant to section 129(b) of the Emergency Economic Stabilization Act of 2008 ("EESA"), the Board of Governors of the Federal Reserve System (the "Board") is providing the following updates concerning the lending facilities established by the Board under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343). This report is the first of the periodic update reports required by section 129(b) of the EESA.

Pursuant to section 129(b), the Board must provide the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services (the "Committees") an update report on each exercise of the Board's authority since March 1, 2008 under section 13(3) of the Federal Reserve Act. The first periodic report with respect to a particular exercise of this lending authority must be submitted within 60 days of (i) the date on which the initial report concerning the authorization was submitted to the Committees under section 129 of the EESA or (ii) the first date on which any loan under the authorization is first made, whichever is later. Subsequent update reports with respect to the authorization must be filed at least every 60 days thereafter so long as any loan under the authorization is outstanding.

This report provides the first periodic update for all of the loans and lending facilities authorized by the Board under section 13(3) since March 1, 2008, that are outstanding. These facilities are: (1) the Term Securities Lending Facility, (2) the loan to Maiden Lane LLC to facilitate the acquisition of The Bear Stearns Companies, Inc. ("Bear Stearns") by JPMorgan Chase, (3) the Primary Dealer Credit Facility, (4) the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, (5) the Commercial Paper Funding Facility, and (6) the lending facilities established for American International Group, Inc. ("AIG"). Although the first periodic report for several of these facilities is not due yet, the Board believes that providing a comprehensive update regarding all lending facilities under section 13(3) currently outstanding should help Congress and the public understand the status, scope and structure of the various facilities the Board

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has established to promote financial stability, support the provision of credit to firms and households, and contribute to a resumption of economic growth.

In addition to the credit facilities discussed in this report, the Board also has authorized the establishment of the following credit facilities under section 13(3) of the Federal Reserve Act: the Money Market Investor Funding Facility, certain residual financing for Citigroup, Inc., and the Term Asset-Backed Securities Loan Facility. No loans have been made under these credit facilities to date. When a loan is made under any of these facilities in the future, the Board will file a report with the Committees concerning the facility in accordance with section 129(b) of the EESA. Additional information concerning these facilities is available in the reports filed with the Committees on October 28, 2008, December 1, 2008, and December 2, 2008.

A. Term Securities Lending Facility

On March 11, 2008, the Board, in conjunction with the Federal Open Market Committee, established the Term Securities Lending Facility ("TSLF") and authorized the Federal Reserve Bank of New York (the "New York Reserve Bank") to lend under this program. The TSLF generally was intended to promote liquidity in the financing markets for Treasury and other collateral and, in doing so, foster improved functioning of the financial markets more broadly. Under the TSLF, the Federal Reserve auctions term loans of U.S. Treasury securities to primary dealers and accepts a broad range of other securities as collateral. On July 30, 2008, the Federal Reserve established the TSLF Options Program ("TOP") as an extension of the TSLF. Under the TOP, options to draw shorter-term TSLF loans at future dates are auctioned to the primary dealers. All loans under the facility are collateralized by a pledge of other securities deemed eligible collateral by the New York Reserve Bank. Eligible collateral includes (i) all collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk, such as Treasury obligations and debt obligations (including mortgage-backed securities) for which the payment of the principal and interest is fully guaranteed by an agency of the United States, and (ii) investment grade corporate, municipal, mortgage-backed and asset-backed securities. Collateral is pledged by winning dealers from their clearing bank custodial accounts and valued daily. Additional information concerning the TSLF and TOP is available in the report provided to the Committees on November 3, 2008.

Update. On December 2, 2008, the Board extended the termination date of the TSLF until April 30, 2009. As of December 17, 2008, the aggregate par value

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of Treasury securities lent under the TSLF (including the TOP) was $182.4 billion. As of the same date, the market value of the collateral pledged under the TSLF (including the TOP) was $235.3 billion. The Board does not anticipate any losses to the Federal Reserve or the taxpayers as a result of securities lending under the TSLF. Any potential losses are mitigated by haircuts on the value of the collateral, daily revaluation of the collateral, and limits on the participation of individual dealers. Moreover, loans extended under this program are with recourse to the borrower beyond the specific collateral pledged.

B. Loan to Maiden Lane LLC to facilitate the acquisition by JPMorgan Chase & Company of Bear Stearns

On March 16, 2008, the Board authorized the New York Reserve Bank to make a senior loan to a limited liability company, Maiden Lane LLC ("Maiden Lane"), to acquire $30 billion of identified, less liquid assets of Bear Stearns to facilitate the purchase of Bear Stearns by JPMorgan Chase. As part of the agreement among the parties, JPMorgan Chase lent $1 billion to Maiden Lane that is subordinated for repayment purposes to the New York Reserve Bank's loan. When the loan closed on June 26, 2008, because of adjustments in the values of some of the assets purchased by Maiden Lane from Bear Stearns, the New York Reserve Bank actually lent $28.8 billion to Maiden Lane, and JPMorgan Chase actually lent $1.1 billion to Maiden Lane. The New York Reserve Bank's loan is secured by a first priority security interest in all of the assets of Maiden Lane. Additional information concerning the loan to Maiden Lane is available in the report provided to the Committees on November 3, 2008.[1]

Update. As of December 17, 2008, the principal amount of the loan extended by the New York Reserve Bank to Maiden Lane was $28.8 billion. The current fair value of the portfolio holdings of Maiden Lane reported on the Board's most recent weekly H.4.1 Statistical Release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of the Federal Reserve Banks," for December 17, 2008, was $26.9 billion. Consistent with generally accepted accounting principles ("GAAP"), the portfolio holdings are revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold on the measurement date. The fair value reported for December 17, 2008, is

[1] The Federal Reserve also extended a bridge loan under section 13(3) to Bear Stearns on March 14, 2008. This loan was repaid in full and with interest on March 17, 2008. Additional information concerning this bridge loan is available in the report filed with the Committees on November 3, 2008.

based on the revaluations as of September 30, 2008. Accordingly, the fair value determined through these revaluations may fluctuate over time. The fair value of the portfolio holdings that is reported on the weekly H.4.1 release reflects the most recent quarterly valuations of the portfolio holdings of Maiden Lane adjusted to reflect any accrued interest earnings, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses.

Despite the decline in the current fair value of the collateral, the Board does not anticipate the Maiden Lane loan will result in any net loss to the Federal Reserve or taxpayers. The Maiden Lane loan was extended with the expectation that the value of its portfolio would be realized either by holding the assets to maturity or by selling the assets over an extended period of time during which the full value of the assets could be realized. The ten year term of the loan provides Maiden Lane's asset manager, BlackRock Financial Management, Inc., an opportunity to dispose of the assets in an orderly manner over time. In addition, JPMorgan Chase will absorb the first $1.1 billion of realized losses, should any occur. Moreover, under the terms of the agreement, the New York Reserve Bank is entitled to receive interest payments on the loan to Maiden Lane as well as any residual cash flow generated by the collateral after the loans to the New York Reserve Bank and JPMorgan Chase are repaid.

C. Primary Dealer Credit Facility

On March 16, 2008, the Board established the Primary Dealer Credit Facility ("PDCF") and authorized the New York Reserve Bank to lend under that facility. The PDCF is intended to foster improved functioning of financial markets more generally and is an overnight loan facility that provides funding to primary dealers secured by collateral eligible for tri-party repurchase agreements in the systems of the major clearing banks. On September 21, 2008, the Board authorized the London-based broker-dealer subsidiaries of Merrill Lynch & Co., Inc. ("Merrill Lynch"), The Goldman Sachs Group, Inc. ("Goldman Sachs"), and Morgan Stanley to borrow from the New York Reserve Bank under the PDCF. In addition, with the separate approval of the applications of Goldman Sachs and Morgan Stanley to become bank holding companies, the Board authorized the New York Reserve Bank to extend credit to the U.S. broker-dealer subsidiaries of these firms under the PDCF against the types of collateral that may be pledged by depository institutions at the Federal Reserve's primary credit facility. The Board extended the same collateral arrangement to the U.S. broker-dealer subsidiary of Merrill Lynch.

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Collateral eligible to be pledged under the PDCF includes all collateral eligible as of September 12, 2008, for pledge in tri-party repurchase agreement transactions through the major clearing banks, which includes (i) all collateral eligible for pledge in open market operations, such as Treasury obligations and debt obligations (including mortgage-backed securities) for which the payment of the principal and interest is fully guaranteed by an agency of the United States, and (ii) investment grade corporate securities, municipal securities, mortgage-backed securities and asset-backed securities that were priced by the clearing banks on such date. The U.S. broker-dealer subsidiaries of Merrill Lynch, Goldman Sachs, and Morgan Stanley also may borrow against types of collateral that may be pledged by depository institutions at the discount window. Additional information concerning the PDCF, including the expansions described above, is available in the report provided to the Committees on November 3, 2008.

Update. On November 23, 2008, in connection with the other actions being taken by the Treasury Department, the Federal Deposit Insurance Corporation and the Federal Reserve with respect to Citigroup, Inc., the Board authorized the London-based broker-dealer subsidiary of Citigroup, Inc. to borrow from the New York Reserve Bank under the PDCF. Separately, on December 2, 2008, the Board extended the termination date of the PDCF until April 30, 2009.

As of December 17, 2008, the amount of loans outstanding under the PDCF was $47.3 billion. As of the same date, the market value of the collateral pledged under the PDCF was $51.2 billion. The Board does not anticipate that lending under the PDCF will result in any losses to the Federal Reserve or the taxpayers. Any loans made under the PDCF are with recourse beyond the pledged collateral to the broker-dealer entity itself, and the risk of loss is mitigated by daily revaluation of the collateral and haircuts on the collateral value.

D. Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

On September 19, 2008, the Board authorized the creation of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF") and authorized the Federal Reserve Bank of Boston ("Boston Reserve Bank") to lend under the AMLF. The AMLF provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper ("ABCP") from money market mutual funds ("MMMFs") under certain conditions. The program is intended to assist money market funds that hold such paper in meeting demands for redemptions by

investors and to foster liquidity in the ABCP market and money market funds more generally. The collateral for loans is the pledged ABCP, which is equal to the amount of the advances. Additional information concerning the AMLF is available in the report provided to the Committees on November 3, 2008.

Update. On December 2, 2008, the Board extended the termination date of the AMLF until April 30, 2009. As of December 17, 2008, the aggregate amount of outstanding advances under the AMLF was $27.4 billion for which an equal amount of ABCP at amortized cost has been pledged as collateral. The Board does not expect that advances under the AMLF will result in any realized losses to the Federal Reserve or the taxpayers. The program is limited to ABCP that receives the highest rating from a major credit-rating agency. Moreover, ABCP is supported by the assets backing the paper.

E. Commercial Paper Funding Facility

On October 14, 2008, the Board authorized the creation of the Commercial Paper Funding Facility ("CPFF") and authorized the New York Reserve Bank to extend credit under facility. The CPFF is designed to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle ("SPV") that would purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers. Additional information concerning the CPFF is available in the report provided to the Committees on October 14, 2008.

Update. As of December 17, 2008, the aggregate amount of outstanding advances under the CPFF was $317.5 billion. As of the same date, the value of the collateral pledged under the CPFF, as determined on an amortized cost basis, was $318.8 billion. The Board does not anticipate that advances made under the CPFF will result in any losses to the Federal Reserve or the taxpayers. All advances to the SPV are made with full recourse to the SPV and are secured by all the assets of the SPV. In addition, in situations where the obligations acquired by the SPV are ABCP, the Federal Reserve's advances will be secured by the assets that support the commercial paper. Issuers of commercial paper that is not ABCP pay an additional fee, provide acceptable collateral, or have the paper indorsed. In addition, to use the CPFF, each issuer must pay a proportional fee, and all fees are retained by the SPV to provide an additional cushion against losses.

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F. Loans to American International Group, Inc.

On November 10, 2008, the Board and the Department of the Treasury announced the restructuring of the U.S. government's support for AIG. These actions were taken to establish a more durable capital structure for the company in order to facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, resolve temporary liquidity issues, and promote financial stability, while protecting the interests of the U.S. government and taxpayers.

As part of this restructuring, the Treasury Department acquired $40 billion in newly-issued senior preferred stock of AIG, using funding from the Troubled Asset Relief Program ("TARP") established by the EESA. This investment constituted an important part of the restructuring actions by providing new equity capital to AIG, a tool that was not available to the U.S. government at the time the Federal Reserve initially provided liquidity to AIG in September 2008. In conjunction with the Treasury Department's investment, the Board authorized the New York Reserve Bank to—

1. Restructure the credit facility initially provided to AIG on September 16, 2008 (the "Revolving Credit Facility"), by, among other things, reducing to $60 billion from $85 billion the total amount of credit available under the facility, reducing the interest rate and fees payable under the facility, and extending to five years from two years the term of the facility;

2. Provide up to $22.5 billion in senior secured credit to a newly formed limited liability company, Maiden Lane II, LLC ("ML-II"), to partially fund the acquisition by ML-II from AIG of approximately $40 billion (par value) in residential mortgage-backed securities ("RMBS") purchased by AIG with the cash collateral received through the securities lending operations of AIG's regulated insurance subsidiaries; and

3. Provide up to $30 billion in senior secured credit to a separate, newly formed limited liability company, Maiden Lane III, LLC ("ML-III"), to partially fund the acquisition by ML-III from the current counterparties of AIG of approximately $69 billion (par value) in multi-sector collateralized debt obligations ("CDOs") protected by credit default swaps and similar contracts written by AIG.

Additional information concerning each of these authorizations and credit facilities is provided in the report filed with the Committees on November 17, 2008.

Update.

Revolving Credit Facility. As of December 17, 2008, AIG had $41.6 billion in advances outstanding under the Revolving Credit Facility.

As discussed in the report filed on November 17, 2008, AIG is unconditionally obligated to repay the unpaid principal amount of all advances under the Revolving Credit Facility, together with accrued and unpaid interest thereon and any unpaid fees, on the maturity date. Also, all outstanding balances under the Revolving Credit Facility are secured by the pledge of assets of AIG and its primary non-regulated subsidiaries, including AIG's ownership interest in its regulated U.S. and foreign subsidiaries.[2] Furthermore, AIG's obligations to the New York Reserve Bank continue to be guaranteed by each of AIG's domestic, nonregulated subsidiaries that have more than $50 million in assets.[3] These guarantees themselves are separately secured by assets pledged to the New York Reserve Bank by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time by signing a short supplemental agreement.

The New York Reserve Bank's agreement to provide advances under the Revolving Credit Facility also is specifically conditioned on the Reserve Bank being satisfied in its sole discretion with the nature and value of the collateral securing AIG's obligations at the time of the advance, and on the Reserve Bank being reasonably satisfied in all respects with the corporate governance of AIG. Representatives of the New York Reserve Bank are in regular contact with AIG's senior management and attend all AIG board of directors meetings, including committee meetings, as an observer. The New York Reserve Bank also has staff on-site at AIG to monitor the company's funding, cash flows, use of proceeds and progress in pursuing its global divestiture plan. Control and management of the daily business and operations of AIG and its subsidiaries continue to be vested in the new chairman and chief executive officer of AIG and his management team. These and other provisions protect the interests of the Federal Reserve, the Treasury Department, and taxpayers in providing for full repayment by AIG of all of its Federal Reserve borrowing.

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[2] In the case of foreign subsidiaries, the equity interest the Reserve Bank will accept as collateral is limited to 66 percent ownership in order to avoid adverse tax consequences for AIG or its subsidiaries.

[3] Regulated subsidiaries, such as insurance companies, typically are not permitted to provide such guarantees.

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In light of the complexities involved in valuing the extremely broad and diverse range of collateral and guarantees securing all advances under the Revolving Credit Facility, the Board believes any estimate at this time of the aggregate value that ultimately will or may be received from the sale of collateral or the enforcement of the guarantees in the future would be speculative and could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the Revolving Credit Facility. Given the substantial assets and operations supporting repayment of the loan, as well as the equity interest in AIG that the U.S. Treasury Department has received or will receive, the Board does not expect that the Revolving Credit Facility will result in any net loss to the Federal Reserve or taxpayers.

Maiden Lane II and Maiden Lane III. ML-II commenced operations on December 12, 2008, through the acquisition from AIG of approximately $39.3 billion (par value) of RMBS. As of December 17, 2008, the principal amount of the loan extended to ML-II by the New York Reserve Bank was $19.5 billion.

ML-III commenced operations on November 25, 2008, through the acquisition of approximately $46.1 billion (par value) of multi-sector CDOs. Additional CDOs may be acquired by ML-III through additional closings. As of December 17, 2008, the principal amount of the loan provided to ML-III by the New York Reserve Bank was $15.1 billion.

The current fair values of the net portfolio holdings of ML-II and ML-III reported on the most recent weekly H.4.1 release for December 17, 2008, were $20.0 billion and $19.7 billion, respectively. Consistent with GAAP, the portfolio holdings of ML-II and ML-III will be revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold on the measurement date and, accordingly, the fair value determined through these revaluations may fluctuate over time.[4] The fair values of the portfolio holdings of ML-II and ML-III that are reported on the Board's weekly H.4.1 release reflect the most recent valuations of the portfolio holdings of ML-II and ML-III adjusted to

[4] As noted above, additional multi-sector CDOs may be acquired by ML-III through additional closings and the fair value of these additional multi-sector CDOs would be determined in connection with the acquisition of such obligations by ML-III.

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reflect any accrued interest earnings, expense payments and, to the extent any may have occurred since the most recent valuation date, realized gains and losses.

Because the collateral assets for the loans to ML-II and ML-III are expected to generate cash proceeds and will be sold over time, the current reported fair values of the net portfolio holdings of ML-II and ML-III do not reflect the amount of aggregate proceeds that the Federal Reserve could receive from payments on the assets over time or from the sale of the assets of these entities over time. The collateral will be sold over time in an orderly manner that is not affected by the unnaturally strong downward market pressures that have been associated with the recent liquidity crisis. In addition, AIG has a $1 billion subordinated position in ML-II and a $5 billion subordinated position in ML-III. These subordinated positions are available to absorb first any loss that ultimately is incurred by ML-II or ML-III, respectively. The Federal Reserve also is entitled to receive interest on the loans to ML-II and ML-III while they are outstanding and 5/6ths and 2/3rds of any residual cash flow generated by the collateral held by ML-II and ML-III, respectively, after the senior note of the New York Reserve Bank and the subordinated note of AIG are repaid.

Given these protections, the Board does not believe that the extensions of credit to ML-II or ML-III will result in any net cost to the taxpayers resulting from the failure to repay the principal and interest of the senior loans provided by the New York Reserve Bank.

Securities Borrowing Facility. As explained in the report filed with the Committees on November 17, 2008, the proceeds received by AIG and its insurance subsidiaries from the establishment of Maiden Lane II were used to terminate the securities lending program operated by certain of AIG's regulated insurance subsidiaries. Accordingly, the $37.8 billion securities borrowing facility authorized by the Board for AIG in October 2008 under section 13(3) of the Federal Reserve Act was terminated on December 12, 2008, and all outstanding balances under that facility were repaid in full. During the term of the facility, the Federal Reserve received interest on the loans provided and, as expected, the securities borrowing facility did not result in any losses to the Federal Reserve or the taxpayers.

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