

October 15, 2018

Ms. Susan Cospier
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Agenda request – Definition and Codification of Earnings Management

Dear Ms. Cospier:

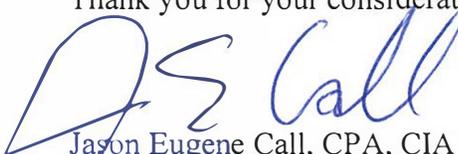
I respectfully request that you add to the next agenda a definition and codification of earnings management (EM). I acknowledge that EM is a difficult issue. However, the peer-review scholarship for the last half century declares irrefutable proof of EM. We should not ignore the issue.

The lack of a clear definition allows EM to flourish in ambiguity. My suggestion is to define EM as *any accounting transaction or accrual that is intentionally designed to increase or decrease earnings to obtain a specific short-term result*. The problem with EM is information asymmetry; there are a few winners and countless losers. EM allows a few insider stakeholders to enrich themselves. All the outsider stakeholders can unknowingly suffer incalculable losses.

Research indicates there are two categories of EM. Accrual-based EM takes advantage of estimates to increase or decrease earnings. AEM can exploit accounting rules to create a *cookie jar*. The other category is Real EM. Most REM is perfectly legal. However, if company leaders do engage in EM, they should disclose the accounting policy in accordance with ASC 235-10-50-1 & 3. If company leaders engage in REM to increase the long-term value of stakeholders, they should be rewarded. However, if company leaders engage in REM for short-term benefits that only reverse later or result in long-term losses, it is a breach of fiduciary responsibility.

Please provide some guidance. Company leaders are using EM. If EM is wrong, we all need to work to eliminate it. If EM is permissible, then I want to start teaching my students how to use EM responsibly. I would like to help develop responsible EM standards and internal controls to prevent EM abuse.

Thank you for your consideration,



Jason Eugene Call, CPA, CIA
415 6th Street North #312
La Crosse, WI 54601