

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release 98611 / September 28, 2023

ACCOUNTING AND AUDITING ENFORCEMENT
Release 4465/ September 28, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21754

| |
|---|
| <p>In the Matter of</p> <p>TAL Education Group,</p> <p>Respondent.</p> |
|---|

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND
IMPOSING A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against TAL Education Group (“TAL” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

SUMMARY

1. This matter concerns violations of the periodic reporting, books and records, and internal accounting controls provisions of the federal securities laws by TAL, a foreign private issuer headquartered in the People's Republic of China ("PRC"), during the first three quarters of its 2020 fiscal year.²

2. These violations stemmed from deceptive conduct by persons then working at the TAL subsidiary operating TAL's "Light Class" Business Line, who, at the direction of a then mid-level manager, forged numerous "chops," or seals, and created phony contracts with third parties, all for the purpose of artificially inflating the Light Class Business Line's revenue.

3. Due in part to TAL's internal accounting controls with respect to its Light Class Business Line having been deficient during the period of the aforementioned conduct, that conduct resulted in TAL's consolidated reported net revenues and net income being misstated, during the first three quarters of its 2020 fiscal year, in the aggregate, by \$86.1 million and \$26.6 million, respectively. *See* Charts at Figs. 1 and 2, *infra*. This, in turn, necessitated the filing of a restatement by TAL.³

RESPONDENT

4. **TAL Education Group ("TAL")**, incorporated in the Cayman Islands and having its principal place of business in the PRC, has at all relevant times been in the business of providing smart learning solutions. TAL's American Depository Shares have at all relevant times been registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the New York Stock Exchange under the symbol "TAL." Also at all relevant times, TAL has filed periodic and other reports, including on Forms 20-F and 6-K, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

FACTS

5. TAL launched its Light Class Business Line during its 2018 fiscal year through a consolidated subsidiary. The Light Class Business Line consisted of both business-to-consumer ("B2C") tutoring products and business-to-business ("B2B") revenue-sharing agreements between TAL and PRC-based telecom operators.

6. TAL's Light Class Business Line generated minimal revenues during TAL's 2019 fiscal year. During, however, the first three quarters of TAL's 2020 fiscal year (which encompassed March 1, 2019 through November 30, 2019), revenue purportedly attributable to the Light Class Business Line increased dramatically, to purportedly account for between 3% and 4% of TAL's total reported revenue.

² TAL's 2020 fiscal year ran from March 1, 2019 to February 29, 2020.

³ See Annex to TAL's Form 6-K filed April 28, 2020 ("Corrections to Certain Line Items of Previously Released Financial Statements for the First, Second and Third Quarters of Fiscal Year 2020").

7. By late March 2020, TAL discovered that a purported Light Class Business Line B2B contract was a forgery and sought to verify if other contracts and documentation related to the Light Class Business Line were similarly forged. On April 7, 2020, TAL announced that it had discovered the forging of contracts and other documentation in its Light Class business, in violation of its business conduct and internal control policies, that it had reported the suspected responsible employee to local police, and that the police had taken that person into custody. TAL also terminated that employee.

8. The subject former TAL employee, along with a former subordinate, were eventually convicted in a PRC court of, among other things, forging company seals for the purpose of artificially inflating the Light Class Business Line's revenue. Both were sentenced to prison.

9. The subject former TAL employee was, at the time of the offending conduct, a mid-level manager of TAL's Light Class Business Line and, as noted above, the other person prosecuted criminally was his subordinate. In order to inflate the revenues attributable to the B2B component of the Light Class Business Line where they worked, these two former TAL employees forged, photoshopped, and fraudulently altered corporate seals and contracts purporting to have been executed by numerous PRC-based telecom operators.

10. The aforementioned deceptive acts caused TAL's reported net income and net revenues for the first three quarters of its 2020 fiscal year to be misstated, in the aggregate, by a total of \$26.6 million and \$86.1 million, respectively. These misstatements led to TAL's filing the restatement, cited in n. 3 above, quantifying the impact of the deceptive acts upon TAL's originally reported net income and net revenue figures for the three quarters, which are summarized here:

Fig. 1: TAL's REPORTED NET INCOME (in thousands of USD)

| Fiscal Quarter | Reported Net (Loss)/Income | Restated Net (Loss)/Income | Difference | % Under-/Over-Statement |
|----------------|----------------------------|----------------------------|------------|-------------------------|
| Q1 2020 | (10,216) | (19,068) | (8,852) | 46.42% |
| Q2 2020 | (17,373) | (26,500) | (9,127) | 34.44% |
| Q3 2020 | 25,035 | 16,420 | (8,615) | 52.46% |

Fig. 2: TAL's REPORTED NET REVENUES (in thousands of USD)

| Fiscal Quarter | Reported Net Revenues | Restated Net Revenues | Difference | % Overstatement |
|----------------|-----------------------|-----------------------|------------|-----------------|
| Q1 2020 | 702,770 | 673,414 | (29,356) | 4.35% |
| Q2 2020 | 936,626 | 913,195 | (23,431) | 2.57% |
| Q3 2020 | 862,357 | 829,017 | (33,340) | 4.02% |

11. TAL also acknowledged, in its Annual Report on Form 20-F for its 2020 fiscal year, that a material weakness it identified in its internal control over financial reporting relating to

its Light Class Business Line had contributed to its failure to prevent and detect the aforementioned overstatements earlier.

TAL's Remedial Efforts

12. In determining to accept TAL's Offer, the Commission considered remedial steps undertaken by TAL.

VIOLATIONS

13. As a result of the conduct described above, TAL violated Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, reports and certifications as the Commission may require, and require that these reports contain such further material information as may be necessary to make the required statements not misleading.

14. As a result of the conduct described above, TAL also violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of their assets.

15. Finally, as a result of the conduct described above, TAL violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent TAL's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent TAL shall cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and 13a-16 thereunder, and

B. Respondent TAL shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$1.25 million to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

C. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying TAL as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Melissa Hodgman, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5553.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary