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 Cloopen Group Holding Limited ("Cloopen" 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 Respondent 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 finds\(^1\) that:

**Summary**

1. These proceedings arise from an accounting fraud perpetrated by the former Operating Management Director and a former Department Head at Cloopen (the “Senior Managers”). During Cloopen’s year-end audit for fiscal year 2021, its external auditor (the “External Auditor”) identified potential accounting errors. Following an internal investigation, Cloopen determined that, from May 2021 through February 2022, the two China-based Senior Managers, who headed the department that handled Cloopen’s strategic customers, had orchestrated a fraudulent scheme to prematurely recognize revenue on service contracts for which Cloopen had either not completed work or, in some instances, not even started work. Cloopen also identified additional problematic contracts in other departments that were missing or appeared to have falsified supporting documentation.

2. As a result of this misconduct, Cloopen overstated the unaudited financial results that it announced in its filings with the Commission for the second and third quarters of 2021. Specifically, Cloopen’s revenue for the second quarter of 2021 was overstated by $1.8 million (RMB 11.6 million) (approximately 4% of its total revenue) and its revenue for the third quarter was overstated by $2.8 million (RMB 17.8 million) (approximately 6% of its total revenue).\(^2\) In addition, Cloopen’s announced revenue guidance for the fourth quarter of 2021 was significantly overstated. When Cloopen announced the investigation into potential accounting errors, the price of its American depositary shares declined 12.7% from the prior day’s closing price.

3. As described in further detail below, Cloopen’s conduct violated Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 10b-5, 12b-20, 13a-1, and 13a-16.

**Respondent**

4. **Cloopen** is a Cayman Islands corporation that is headquartered in Beijing, People’s Republic of China (“China”) and operates in China through its variable interest entity, Beijing Ronglian Yitong Information Technology Co. Ltd. Cloopen’s American depositary shares (“ADSSs”) were registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the New York Stock Exchange (“NYSE”) under the symbol “RAAS.” On October 25, 2023, the NYSE filed with the Commission a Form 25 notification of removal of Cloopen’s ADSSs from listing and registration as of November 6, 2023 based on Cloopen’s failure to file its annual reports for the years ended December 31, 2021 and December 31, 2022, and a current report on

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\(^1\) 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.

\(^2\) References to U.S. dollars throughout this Order reflect approximate conversions from Chinese renminbi (RMB) using the exchange rate from the relevant quarter.
Form 6-K for the half year ended June 30, 2022. As of November 6, 2023, Cloopen’s ADSs are registered under Section 12(g) of the Exchange Act and are quoted on the over-the-counter market. Cloopen files periodic reports with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder applicable to foreign private issuers.

**Facts**

5. Cloopen is a provider of cloud-based communications products and services to enterprises of various sizes located primarily in China. Cloopen does not operate in the United States and has no employees based in the United States. However, because Cloopen has American depositary shares that traded on the NYSE, it was required to file periodic reports with the Commission, including announcements of its unaudited quarterly results on Form 6-K and annual reports on Form 20-F.

6. In early 2022, in preparation for Cloopen’s annual report for fiscal year 2021, the External Auditor commenced an audit of the company’s financial statements. During that audit, the External Auditor identified irregularities relating to certain customer transactions. On April 29, 2022, the External Auditor resigned.

7. On May 3, 2022, Cloopen announced that it was conducting an internal investigation concerning the issues identified by the External Auditor.

8. During that internal investigation, Cloopen discovered the fraudulent scheme orchestrated by the Senior Managers to improperly recognize revenue early on customer contracts that had not been fulfilled as well as certain other accounting errors. The Senior Managers’ scheme began in May 2021, a few months after Cloopen’s American depositary shares began trading for the first time on the NYSE in February 2021. Shortly before its listing, Cloopen formed a new department to manage strategic customer contracts and key accounts, and tapped the Senior Managers to lead the department. Around the same time, Cloopen also implemented a new performance evaluation system that set strict quarterly sales goals and imposed penalties, including salary and bonus reductions, on executives, including the Senior Managers, whose departments fell short of those targets.

9. Facing pressure to meet the quarterly sales goals, the Senior Managers engaged in a scheme to fraudulently recognize revenue on contracts where services had not been completed or, in some cases, had not been started. Between May 2021 and February 2022, the Senior Managers directed their employees to prematurely recognize revenue on approximately 25 contracts out of a total of 43 contracts in their department. To support this early revenue recognition, the Senior Managers solicited and received customer acceptance reports, which purported to confirm work had been completed, prior to the relevant projects’ actual completion and sometimes even before the contracts had been signed.

10. In addition to the scheme orchestrated by the Senior Managers in the department they led, Cloopen’s investigation also identified transactions in other departments that resulted in improperly recognized revenue, by, among other things, the use of acceptance reports prior to completion of work and the falsification or lack of supporting documentation. These errors contributed to the overstatement of Cloopen’s revenues.
11. Throughout the relevant period, Cloopen did not have adequate internal accounting controls and company policies and procedures in place to provide reasonable assurance that revenues from sales transactions were accurately recorded and reported in its financial statements in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”).

12. On September 6, 2022, Cloopen announced the substantial completion of its internal investigation and disclosed that it had misstated reported revenue in its unaudited financial statements for the second and third quarters of fiscal year 2021 as well as in its guidance for the fourth quarter of the same fiscal year. Specifically, Cloopen’s reported revenue of $42.4 million (RMB 273.9 million) for the second quarter of 2021 was overstated by $1.8 million (RMB 11.6 million). Cloopen’s reported revenue of $42.9 million (RMB 276.1 million) for the third quarter of 2021 was overstated by $2.8 million (RMB 17.8 million).

13. Cloopen’s internal investigation also concluded that the company had prematurely recognized millions of dollars in revenue in the fourth quarter of 2021 as a result of the Senior Managers’ scheme. As a result, Cloopen announced that it would fall significantly below the revenue guidance for the fourth quarter of fiscal year 2021 that it had previously announced in November 2021. The inaccurate internal fourth quarter figures were discovered before Cloopen reported its financial results for the fourth quarter of 2021.

Violations

14. As a result of the conduct described above, Cloopen violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

15. As a result of the conduct described above, Cloopen violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-16 thereunder, which require every foreign issuer of a security registered pursuant to Section 12 of the Exchange Act to furnish the Commission with periodic reports containing information that is accurate and not misleading.

16. As a result of the conduct described above, Cloopen violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. Section 13(b)(2)(A) of the Exchange Act requires issuers with a security registered pursuant to Section 12 of the Exchange Act to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer. Section 13(b)(2)(B) of the Exchange Act requires such issuers to, among other things, 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.
**Cloopen’s Cooperation and Remedial Efforts**

17. In determining to accept the Offer, the Commission considered Cloopen’s prompt self-report of accounting errors to the Commission’s staff, the cooperation provided by Cloopen throughout the Commission’s investigation, and the remedial measures undertaken by Cloopen.

18. In early May 2022, Cloopen self-reported to the Commission’s staff the accounting errors uncovered by the External Auditor. Cloopen made the self-report within a few days of retaining outside counsel to conduct an internal investigation and before any significant steps had been taken as part of that investigation.

19. Thereafter, Cloopen provided substantial cooperation to the Commission’s staff throughout the staff’s investigation, including by providing detailed explanations of the customer transactions at issue and their financial impact; summarizing interviews of witnesses located in China; identifying, translating, and producing certain key documents originally written in Chinese; and providing other relevant information to the staff. The cooperation afforded by Cloopen substantially advanced the efficiency of the staff’s investigation and conserved Commission resources.

20. Cloopen also undertook prompt remedial measures, including: (1) forming an independent special committee of its Board of Directors to investigate the issues raised by the External Auditor; (2) terminating the Senior Managers who orchestrated the early revenue recognition misconduct and also disciplining other employees who were involved; (3) reorganizing or removing the departments involved in the misconduct; (4) strengthening its internal accounting controls surrounding customer contracts, payments, and revenue recognition; (5) retraining company executives, department heads, and employees in the finance, accounting, internal audit, and sales departments on Cloopen’s internal accounting controls and company policies and procedures, including with respect to revenue recognition; (6) recruiting finance and accounting personnel with expertise in U.S. GAAP; and (7) clawing back $228,000 (RMB 1.64 million) of bonus compensation paid to Cloopen’s Chief Executive Officer and Chief Financial Officer for the last nine months of 2021.

**IV.**

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

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Cloopen cease and desist from committing or causing any violations and any future violations of Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 10b-5, 12b-20, 13a-1, and 13a-16.
B. Respondent acknowledges that the Commission is not imposing a civil penalty based upon its cooperation in a Commission investigation. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay a civil money penalty. Respondent may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Vanessa A. Countryman
Secretary