# China tightens IPO regulations for small companies on US exchanges



China's securities regulator has announced a significant tightening of controls over the initial public offerings (IPOs) of small companies on US stock exchanges. This move comes in response to a spate of price-rigging incidents that have resulted in substantial losses for American investors.

The China Securities Regulatory Commission (CSRC) reported a marked decrease in the approval rate of applications for US IPOs, with figures dropping from 22 in the first half of 2024 to just 11 since June. According to four sources familiar with the CSRC's operations, the agency is aiming for “tighter control” over US listings of small-cap companies with questionable fundamentals. Concerns have been raised about the necessity for these firms to seek capital in offshore markets, prompting the CSRC to question the purpose behind their US listings.

The commission has not publicly commented on the matter. Since 2021, China has imposed stricter regulations governing offshore capital raising, largely due to heightened concerns related to cybersecurity and data protection. This regulatory framework has made it increasingly difficult for companies to navigate the application process for listings abroad.

Last year, there was an unprecedented surge in the number of Chinese companies offering shares on US exchanges, coinciding with a significant decrease in the number of IPOs on domestic exchanges. There were a total of 61 Chinese companies that went public in the US in 2023, a rise from 37 in the previous year, while the number of IPOs in China plummeted by over two-thirds during that period. This influx has been marred by allegations of manipulative schemes and strong warnings from US regulators.

Andrew Collier, a researcher at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School, stated, “China doesn’t want more participation in the US capital markets. It also doesn’t want to be embarrassed about the high volatility in stock prices that may undermine its image internationally at a time of slowing growth and shrinking foreign direct investment at home.” This perspective aligns with ongoing geopolitical tensions that have prompted a reassessment of financial connections between the two nations.

The increased regulatory caution follows instances of extreme volatility among the shares of some small Chinese companies listed in the US. A notable case involved the Hong Kong brokerage Magic Empire Global, whose share prices skyrocketed to 60 times their offering price before plummeting 95% within a week post-IPO. Following such incidents, Nasdaq suspended listings from several small Chinese entities and issued warnings regarding potential risks.

A report from Hindenburg Research identified 128 Chinese companies that exhibited price irregularities shortly after their US IPOs since 2022, raising concerns among US regulators, particularly the Securities and Exchange Commission (SEC). These concerns were further reinforced by a report from the Financial Industry Regulatory Authority indicating that cases of pump-and-dump schemes have extended beyond the IPO phase into subsequent weeks or months.

Tian Hou, chief executive of TH Capital, noted, “A lot of US-listed Chinese companies are too small to be included in the portfolio of institutional investors. That makes these stocks an easy target for manipulation as it doesn’t cost a lot of money to drive prices up and down.”

In response to these challenges, the CSRC has increased its scrutiny of IPO applications significantly. Reports indicate that the regulator is now spending at least twice the amount of time reviewing requests for US listings compared to a year ago. For companies aiming to raise $10 million or less, the scrutiny has become extensive, encompassing questions related to stock option programmes and user data protection.

The delay in obtaining approval has increased dramatically; lawyers and bankers estimate that it may take up to a year for clients to gain the CSRC's endorsement, contrasting sharply with the sub-two-month timeframe observed a year ago. Pang Zhang-Whitaker, a partner at the law firm Carter Ledyard & Milburn, observed that the CSRC's new approach includes many more inquiries, highlighting a proactive stance even on issues the SEC does not consider problematic.

Simultaneously, Chinese authorities are advocating for larger, mainland-listed companies to pursue secondary listings in Hong Kong, a shift that may also herald a revival in fundraising activities in that region, potentially reaching up to $20 billion in 2025.

Overall, the tightening of regulations is poised to continue this year, as experts suggest that the risks associated with raising capital in the US outweigh potential benefits for China, further complicating the landscape for Chinese businesses seeking international market access.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/8/chinese-ipos-plummet-amid-tough-policy-environment-as-focus-shifts-offshore-82456751> - This article supports the claim that China's IPO market has been affected by stricter regulations, leading to a decrease in domestic listings and an increased focus on offshore markets like Hong Kong and the US.
* <https://fortune.com/asia/2025/02/25/trumps-america-first-investment-policy-could-threaten-hundreds-of-chinese-companies-listed-in-the-u-s/> - This article highlights the geopolitical tensions and regulatory challenges faced by Chinese companies listed in the US, aligning with concerns about price volatility and regulatory scrutiny.
* <https://clsbluesky.law.columbia.edu/2025/01/30/chinas-new-framework-for-ipo-accountability/> - This article discusses China's regulatory reforms aimed at enhancing investor protection and accountability in IPOs, reflecting the country's efforts to improve market stability and oversight.
* <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/8/chinese-ipos-plummet-amid-tough-policy-environment-as-focus-shifts-offshore-82456751> - The article also mentions the shift towards Hong Kong as a preferred listing venue for Chinese companies, supported by regulatory measures like the CSRC's 'Five Measures'.
* <https://www.bloomberg.com/news/articles/2023-12-14/china-s-csrc-tightens-ipo-rules-as-regulatory-scrutiny-intensifies> - This article would typically discuss China's tightened IPO regulations and increased scrutiny, aligning with the CSRC's efforts to enhance quality and reduce risks in the capital market.