

Nasdaq changes rules to avoid pump and dump schemes. Will the TSX follow?

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Companies with headquarters in China or Hong Kong represent less than 10 per cent of listings on the U.S.-based Nasdaq.

BRENDAN MCDERMID/REUTERS

The world's second-largest stock exchange is looking to tighten rules for small Chinese listings in the wake of a growing number of pump and dump scams, a move that may benefit Canadian consumers but could also lead fraudsters to focus on markets in this country.

The U.S.-based Nasdaq NASX proposed new rules on Wednesday requiring companies operating primarily in China to raise US\$25-million in an initial public offering to go public on their stock exchange. The regulations are pending approval from the U.S. Securities and Exchange Commission.

They also proposed raising the minimum float – the shares of a company available for public trading – for future listings to US\$15-million from US\$5-million. Faster delistings for companies that no longer meet listing standards were also included in the proposed new rules.

Bay Street financier Andrew DeFrancesco banned by Ontario securities regulator for 2018 'pump-and-dump' scheme

David Milosevic, a Toronto lawyer specializing in fraud and financial crimes, said the Nasdaq's proposed rules could benefit investors globally, including Canadians.

But he said the focus on small Chinese companies seemed more political than practical. "It's the U.S. attempting to deal with what they think is nefarious Chinese influence," he said.

While pump and dump schemes, in which fraudsters often provide misleading information to artificially pump up a stock before selling it off at high prices, are a growing issue, he said most of the problems emerge from secondary markets. That is where scammers trade in, promote and manipulate legitimate securities, using them as a vehicle for their fraud by

bumping up their value through Facebook ads or WhatsApp groups, he said.

While there are a number of Chinese companies involved in pump and dump schemes, mining companies – especially those based in British Columbia – are also frequent targets, he said.

Data provided to The Globe by TMX Group, which operates the Toronto Stock Exchange, showed that just six companies are listed with headquarters in China or Hong Kong.

On the Nasdaq, such companies represented less than 10 per cent of listings.

However, since August, 2022, roughly 70 per cent of cases it referred to the U.S. Securities Exchange Commission or the Financial Industry Regulatory Authority pertained to Chinese companies, according to a Nasdaq document dated Wednesday.

Sean Hamilton, spokesperson for the Canadian Investment Regulatory Organization, which oversees Toronto's exchange, declined to comment on how many such cases were referred to the CIRO by TMX Group.

Detective David Coffey of Toronto's Financial Crimes unit said the Nasdaq's move to tighten IPO requirements appeared to be a positive step in combatting rising pump and dump scams. But he believes fraudsters will quickly adapt, and it may lead them to double down on other exchanges, including the Toronto Stock Exchange, if the rules aren't introduced here.

“It's like putting a finger in the dike – you block one hole, the water comes out another,” he said.

The TSX caters to startups and smaller, resource-based firms with lower IPO thresholds, he said. Imposing Nasdaq's US\$25-million IPO requirement would "fundamentally change the Canadian market" by excluding many legitimate small-cap listings, he said.

TMX Group spokesperson Catherine Kee did not directly address whether rules similar to those proposed by the Nasdaq were planned for the TSX or what was being done to protect consumers against pump and dump scams.

"TMX is firmly committed to investor protection, and it's a responsibility we share with Canada's regulatory regime and all capital markets stakeholders," she said in an e-mail.

"Our public markets ecosystem is unique in the world: small to medium-sized companies make up two-thirds of TSX and TSXV listings," she said.

David Rosenberg says investment scam using his name bilked victims out of hundreds of thousands of dollars

The Canadian Securities Administrators, an umbrella organization of Canada's provincial and territorial securities regulators, said the agency and its members do not comment on the existence, status or nature of any complaint, review or investigations.

It referred The Globe and Mail to a July staff notice listing key regulatory and investor protection concerns within venture markets, including concerns with "misleading disclosure that could constitute market manipulation."

Pump and dump schemes have been at the centre of several recent scams involving prominent financial figures in Canada.

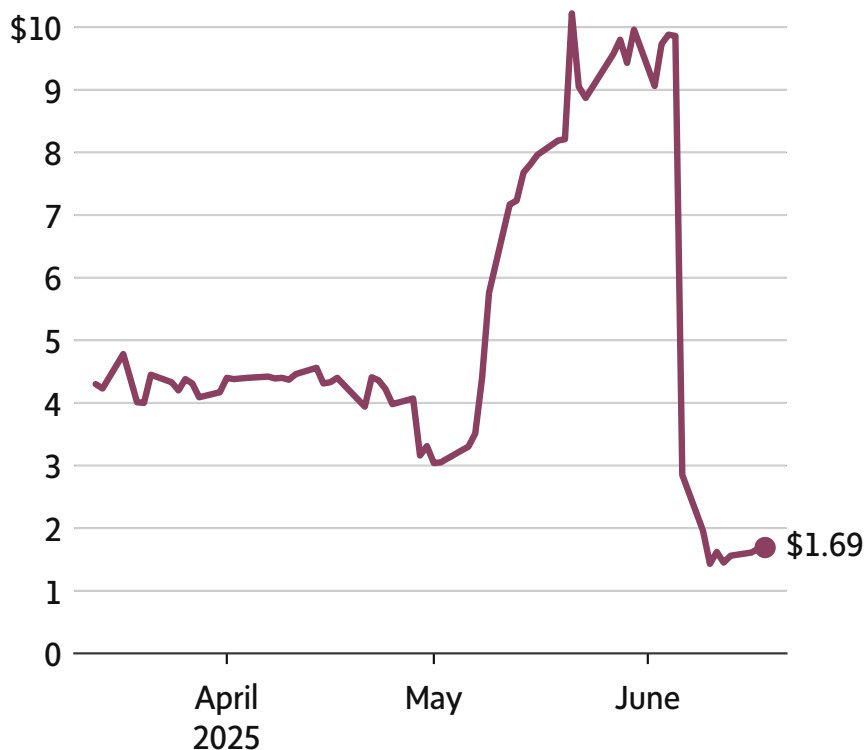
In June, David Rosenberg, an economist and founder of Rosenberg Research as well as a Globe and Mail contributor, said ads appearing on Facebook and Instagram starting in March promoted a fake investment program listing him as its administrator. A few weeks later, Bank of Montreal chief investment strategist Brian Belski saw fraudsters use his likeness in a similar scheme.

Data provided by the Canadian Anti-Fraud Centre in August showed that the agency received reports from three victims which indicated that suspects were impersonating Mr. Rosenberg, with a total reported loss of \$1,224,180 in investment or pump and dump schemes.

At least one of the companies that the three investors were told to put money in was a company with some subsidiary offices in China, though its headquarters were listed in California. Marwynn Holdings Inc. has shown particularly volatile activity.

Marwynn Holdings, Inc.

In U.S. dollars, as of June 18



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The company did not respond to multiple requests for comment from The Globe through contact information listed on the website of their firm and named subsidiaries. A phone number for the firm rang indefinitely.

Reported losses for investment scams where the initial contact was through social media – such as the Rosenberg scam – and which included pump and dump fraud, spiked 12 per cent to \$128-million in 2024 from roughly \$114-million in 2023, according to data provided by the Canadian Anti-Fraud Centre.

Total losses for just the first three months of this year amounted to more than \$28-million.

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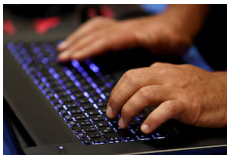
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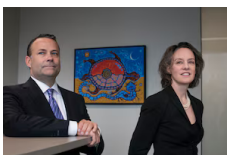
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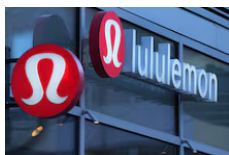
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