

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of:

Name of the Noticee(s)	SEBI Registration No.	PAN
Monarch Network Capital Limited	INZ000008037	AAACN1184F

in the matter of IPO of Tijaria Polypipes Limited

Background:

1. Tijaria Polypipes Limited (hereinafter referred to as “**TPL**”), a company incorporated under the Companies Act, 1956, came out with an Initial Public Offering (hereinafter referred to as “**IPO**”) of 1,00,00,000 equity shares of a face value of Rs. 10 each, issued at a premium of Rs. 50 per equity share, wherein it had raised Rs. 60 crore to fund its proposed expansion and diversification plans. The fixed price IPO opened on September 27, 2011 and closed on September 29, 2011. The shares of TPL were listed on the Bombay Stock Exchange Limited (hereinafter referred to as “**BSE**”) and the National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”).
2. The Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”), on receipt of a complaint related to the IPO, had conducted a preliminary investigation in respect of a steep fall in the share price of TPL on the first day of listing i.e. October 14, 2011. The preliminary investigation *prima facie* revealed that TPL had, through layered transactions, diverted a

substantial part of its IPO proceeds in order to offset losses sustained by certain entities who had allegedly provided an exit to retail allottees/Qualified Institutional Buyers (“**QIBs**”) of their shares allotted in the IPO, at a premium to the issue price. Pinac Stock Brokers Private Limited (hereinafter referred to as “**Pinac**”) was found to be one such entity that had allegedly provided an exit to retail allottees and the losses sustained by it in doing so, were allegedly found to be partly borne by TPL through layered fund transactions and by its stock brokers viz. Monarch Projects and Finmarkets Ltd. (hereinafter referred to as “**MPFL**”) on NSE and Monarch Research and Brokerage Pvt. Ltd. (hereinafter referred to as “**MRBL**”) on BSE.

3. In view of the *prima facie* observations made in the preliminary investigation, SEBI vide an ad-interim *ex-parte* Order dated December 28, 2011 (hereinafter referred to as “**Interim Order**”) had *inter alia* prohibited MPFL and MRBL from buying, selling or dealing in securities, in any manner whatsoever, in the proprietary account and also from entering into any fresh agreements with new clients till further orders for the *prima facie* violation of the provisions of Section 12A of the SEBI Act, 1992 read with Regulations 3(b), 3(c), 3(d) and 4(1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as “**PFUTP Regulations**”).
4. Thereafter, SEBI concluded the detailed investigation in the matter and enforcement actions were recommended against various persons/entities, including against Pinac, MPFL and MRBL. Subsequently, vide an order dated November 02, 2012, the interim directions issued to MPFL and MRBL were revoked considering that enquiry proceedings under the provisions of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”) were separately initiated against MPFL and MRBL.
5. Vide communique dated October 15, 2012 and October 27, 2016, a Designated Authority (hereinafter referred to as “**DA**”) was appointed under Regulation 24 of the Intermediaries Regulations to enquire into the violations

alleged against MPFL and MRBL. During the course of the proceedings, it was brought on record that pursuant to a scheme of amalgamation approved by the Hon'ble High Court of Judicature of Bombay, vide an order dated August 07, 2014, MPFL and MRBL were merged / amalgamated into a new entity viz. Monarch Network Capital Limited (hereinafter referred to as “**Noticee**”) with effect from August 21, 2015. Accordingly, vide communique dated February 09, 2021, the proceedings initiated against the transferor entities viz. MPFL and MRBL were continued against the transferee entity i.e. the Noticee. Therefore, the instant proceedings are lying against the Noticee under the provisions of Intermediaries Regulations, 2008.

Enquiry by the Designated Authority:

6. The DA had issued a Show Cause Notice dated February 12, 2021 (hereinafter referred to as “**SCN**”) under Regulation 25(1) of the Intermediaries Regulations, calling upon the Noticee to show cause as to why appropriate recommendations for the alleged violations should not be made against the Noticee. It was alleged in the SCN that the Noticee has violated the provisions of Section 12A of the SEBI Act, 1992, Regulations 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2)(e) of PFUTP Regulations, SEBI Circular No. SMD/Policy/Cir-06/03 dated February 06, 2003 and SEBI Circular No. SEBI/MRD/SE/Cir/33/2003/27/08 dated August 27, 2003.
7. The Noticee filed a settlement application dated April 12, 2021 in the matter in terms of SEBI (Settlement Proceedings) Regulations, 2018 and later withdrew the same vide its letter dated August 10, 2021. Pursuant to the withdrawal of the settlement application, the Noticee was advised to file its reply to the SCN and was granted an opportunity of personal hearing on October 11, 2021. The Noticee submitted its interim reply on October 01, 2021 and also contended that it had been denied the request for inspection of documents. The DA, vide email dated October 11, 2021, informed the Noticee that the copies of the relied upon documents were already provided to it along with the SCN and no additional documents were considered and relied upon in the matter.

Thereafter, the Noticee made its submissions vide its letter dated November 01, 2021.

8. An opportunity of personal hearing was granted to the Noticee on November 26, 2021. Advocate Saachi Purohit and Advocate Nitiksha Parmar appeared as Authorized Representatives on behalf of the Noticee before the DA. Additional submissions were subsequently filed by the Noticee on December 15, 2021 and December 17, 2021.
9. Thereafter, upon completion of the enquiry, an Enquiry Report dated March 31, 2022 (hereinafter referred to as “**Enquiry Report**”) was submitted by the DA recommending as follows:

“...although the role of both MRBL and MPFL (Noticee) mentions of some lapses on their part while dealing with Pinac viz. some instances of structured trades, allowing its client to trade despite debit balance in the ledger, I note that a long and considerable time has elapsed since the date of the impugned transactions executed by the Noticee in the scrip of TPL and during the intervening period, both the entities viz. MRBL and MPFL were also reorganized as they got merged with a new entity i.e Noticee. Therefore, in the facts and circumstances of the case and in terms of the Intermediaries Regulations, I recommend that a warning may be issued to the Noticee to be careful in future in dealings in securities market.”

Post Enquiry Proceedings:

10. A post-enquiry Show Cause Notice dated May 04, 2022 was issued to the Noticee enclosing a copy of the Enquiry Report submitted by the DA and calling upon the Noticee to show cause as to why actions as recommended by the DA or any other action, as deemed fit, in terms of Regulation 27 of the Intermediaries Regulations should not be imposed on the Noticee. In response, the Noticee made its submissions vide letter dated June 06, 2022 seeking inspection of documents, which was provided to the Noticee on August 04, 2022.

11. As noted above, the DA had not recommended cancellation of certificate of registration granted to the Noticee. Further, I was also of the *prima facie* view that it is not a fit case for cancellation of certificate of registration. Therefore, in terms of Regulation 27(4) of the Intermediaries Regulations (as amended with effect from August 01, 2022), an opportunity of personal hearing to the Noticee was dispensed with.

Consideration of Issues and Findings:

12. Before dealing with the merits of the case, I note that the Noticee, relying on certain judgments, has raised a preliminary objection regarding delay in the issuance of SCN for trades pertaining to the year 2011 and therefore, sought that the matter be disposed of on this sole ground. The Noticee has also submitted that it is not in possession of old records as law (SEBI rules and Income Tax Act) does not mandate preservation of records for more than six years.
13. In this regard, from the material available on record, I note that pursuant to completion of investigation, the DA was appointed on October 15, 2012. For various internal reasons such as modifications in the charging provisions, departmental transfer of the DA, change of legal status of MPFL and MRBL following amalgamation/merger so as to constitute the Noticee company etc., the SCN got to be issued only on February 12, 2021.
14. I have taken note of the Noticee's objection with respect to the delay in the proceedings. Now the question is whether delay can independently be considered as a preliminary objection, like grounds of maintainability or jurisdiction etc. I am of the view that the consideration of delay would depend on the facts of each case. It would also depend on gravity of the violation, the market impact caused, the nature of the ultimate directions proposed to be passed etc. Hence, it is proposed to consider the issue of delay after consideration of the facts and evidence available on record versus the allegations against the Noticee, on merit.

15. I, therefore, now proceed to deal with the merits of the case. I have perused the SCN, Enquiry Report, replies filed by the Noticee and other material available on record. I note that the SCN primarily alleges that MPFL and MRBL had aided and abetted its client viz. Pinac, to provide exit to allottees in the IPO of TPL on listing day viz. October 14, 2011, by funding Pinac to the tune of Rs. 2.67 crore for the loss incurred by Pinac in the trading of scrip of TPL on October 14, 2011.
16. The relevant provisions alleged to have been violated by the Noticee are reproduced below.

(i) Section 12A of SEBI Act, 1992

“Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

- (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;
- (c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (d) engage in insider trading;
- (e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognised stock exchange in contravention of the regulations made under this Act.”

(ii) Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(e) of PFUTP Regulations

“3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative

or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.

(2) Dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves any of the following:—

.....

(e) any act or omission amounting to manipulation of the price of a security including, influencing or manipulating the reference price or bench mark price of any securities;”

(iii) SEBI Circular No. SMD/Policy/Cir-06/03 dated February 06, 2003 regarding shortening of settlement cycle

“It has been decided to further shorten the settlement cycle from the existing T+3 rolling settlement to T+2 w.e.f. April 01, 2003.

We had vide our circular No. SMD/Policy/Cir-05/2002 dated March 26, 2002 intimated the activity schedule for the implementation of the rolling settlement on T+3 basis. In view of the shortening of the settlement cycle, the activity schedule has been revised and the following activity schedule shall be adhered to by the stock exchanges. The activity schedule has been finalised through a consultative process with various market participants viz. stock exchanges, broker associations, custodians, depositories, depository participants etc.

S. No.	Day	Time	Description of activity
1	T		Trade Day
2	T+1	By 11.00 am	Custodial conformation of trades. Facility of an Exception window for late confirmations to be provided. (The time limit for late confirmation to be fixed in a manner that the download of the final obligation files to the brokers by 1.30 pm is not delayed.)
		By 1.30 pm	Process and download obligation files to brokers/ custodians
3	T+2	By 11.00 am	Pay-in of securities and funds.
		By 1.30 pm	Pay-out of securities and funds.

The stock exchanges shall also put in place the following systems for effecting settlement on T+2 basis.

1. A facility of late confirmation of trades by the custodians shall be provided. However, the time limit for late confirmation shall be fixed in a manner that the download of the final obligation files to brokers is not delayed.
2. The stock exchanges would levy an additional charge to discourage late confirmations by the custodians.
3. The stock exchanges would provide a system for handling shortages of funds and securities in an expeditious manner to adhere to the time schedule for pay-out.
4. The stock exchanges would also amend their byelaws to mandate the pay out of funds and securities to the clients by the broker within 24 hours of the payout.
5. The stock exchanges shall design an alternative clearing and settlement system in respect of companies whose shares have not been dematerialised to align the clearing and settlement system for such stocks with the T + 2 rolling settlement.
6. The stock exchanges shall not normally permit changes in the Client ID and would keep a strict vigil on cases of client code modification and would implement a monetary penalty structure that would escalate with the number of such incidences. Besides, the exchanges may take necessary action against members making repeated changes. However, genuine mistakes may be allowed to be rectified.
7. Stock exchanges would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would also be encouraged to adopt direct transfer of securities/ funds to clients' account on pay-out.

The stock exchanges are advised to bring to the notice of their members the following activity schedule to be adhered by the stock brokers in the T + 2 rolling settlement.

S.No.	Day	Time	Description of activity
1	T		Trade Day
2	T+2	Until 10.30 am	Accept Pay-in instructions from investors into pool account.
		By 10.30 am	Submit final pay-in files to the depository and the clearing bank.

While the above schedule of activities for the exchange and the brokers is necessary for the implementation of the T+2 rolling settlement, the stock exchanges may also provide the following facilities desirable for further smoothing clearing and settlement process, though these may not be pre-conditions for introduction of T + 2 rolling settlement.

1. Facility of online confirmation of trades by custodians.
2. System to capture the details of the client's depository account and bank account.
3. System for online transmitting the client wise pay-in obligation to depository so that the depository in turn could download the security pay-in instructions to depository participants in respect of the investor maintaining account with them.
4. System wherein the pay-out files could be sent to the clearing banks with a request to online credit to the bank accounts of the clients.
5. The stock exchanges would support development of front end software for brokers to map the Client ID through abbreviated keys to facilitate faster order entry for inserting the unique client code speedily.

The stock exchanges are advised to develop a roadmap for implementation of the above desirable facilities and submit the same to SEBI."

(iv) SEBI Circular No. SEBI/MRD/SE/Cir/33/2003/27/08 dated August 27, 2003 – Mode of payment and delivery

“1. Please refer to SEBI circular No.SMD/SED/CIR/93/23321 and letter No. SMD-1/23341 dated November 18, 1993 regarding regulation of transactions between clients and brokers.

2. It is reiterated that brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.

3. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. However, in exceptional circumstances the broker or sub-broker may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.

4. Similarly in the case of securities also giving / taking delivery of securities in “demat mode” should be directly to / from the “beneficiary accounts” of the clients except delivery of securities to a recognized entity under the approved scheme of the stock exchange and / or SEBI.”

17. For the ease of understanding, I shall refer to MPFL and MRBL (both of which got merged later to form Monarch Network Capital Limited) as the Noticee henceforth. It is observed from the SCN that Pinac, as a client of the Noticee had incurred a loss of Rs. 6,11,96,399.85 while trading in the scrip of TPL on its first day of trading/listing on the stock exchanges i.e. on October 14, 2011. The trades done by Pinac are alleged to have been undertaken for the purpose of giving an exit opportunity, at a premium to the issue price, to 574 allottees in the IPO of TPL. It is alleged in the SCN that Pinac was partly funded by TPL and the Noticee for the said trades.
18. I note that Pinac had bought shares of TPL on October 14, 2011 at a premium of Rs. 3 per share (i.e. at a price of Rs. 63 per share) to the issue price of TPL. Such shares were subsequently sold by Pinac on the same day resulting in a total loss of Rs. 6,11,96,399.85 as summarised below:

Table No. 1 – Summary of Trades done by Pinac on October 14, 2011

PURCHASE DETAILS	No. of shares	Trade time	Average Purchase price per share
BSE	3,00,000	9:59:42 - 9:59:51	Rs. 62.99
NSE	15,00,000	9:55:39 - 9:57:18	Rs. 62.99
SALE DETAILS	No. of shares	Trade time	Average Sale price per share
BSE	3,00,000	14:21:00 - 15:03:41	Rs. 27.41
NSE	15,00,000	14:20:19 - 14:39:00	Rs. 29.31

19. Analysis of the counterparty clients to the buy trades showed that 82.95% and 92.44% of the shares purchased by Pinac on BSE and NSE, respectively, were from 574 allottees in the IPO of TPL. The sell orders were placed by the allottees at a price ranging from Rs. 62.95 – Rs. 63.00 during the period 09:15:00 – 09:42:33. The said sell orders remained pending in the system till the buy orders were placed by the Pinac. Thereafter, Pinac did not place any sell order till 14:21:00.
20. It is alleged in the SCN that the sell orders of Pinac were structured with the buy orders placed by the counterparties i.e. the sell and buy order price and quantity were same and the time difference between the buy and sell orders was within 15 seconds. The counterparties were namely, Swift Tie Up Private Limited, Jivaraj Zala and Salasar Stock Broking Limited. 89.11% of shares sold by Pinac on BSE and 97% of shares sold by Pinac on NSE were bought by the said counterparties.

Table No. 2 – Details of sale trades done by Pinac through the Noticee on October 14, 2011

Exch ange	Sell Order Qty.	Buy Order Qty	Buyer Name	Traded Qty.	Sell Order Price	Buy Order Price	Sell Order Time	Buy Order Time
BSE	200000	250000	Swift Tie Up	189495	29.00	29.00	14:21:00	14:20:59
	100000	50000	Swift Tie Up	47966	29.00	29.00	14:21:00	14:21:04
	50000	500000	Swift Tie Up	29888	19.50	19.50	15:03:41	15:03:47

Exch ange	Sell Order Qty.	Buy Order Qty	Buyer Name	Traded Qty.	Sell Order Price	Buy Order Price	Sell Order Time	Buy Order Time
NSE	500000	500000	Jivraj Zala	493423	30.5	30.50	14:33:16	14:33:25
	300000	500000	Jivraj Zala	289881	25.75	25.75	14:39:00	14:39:08
	500000	500000	Swift Tie Up	482660	30	30.00	14:20:19	14:20:28
	200000	200000	Salasar	188981	30	30.00	14:22:50	14:22:35

21. It is alleged in the SCN that the Noticee, as a stock broker for Pinac, allowed its client to trade in the scrip of TPL despite having continuous debit balance in the ledger account maintained with the Noticee. It was observed from the ledger account of Pinac that pursuant to the trading losses incurred by Pinac on October 14, 2011, the debit balance was not cleared and amounted to Rs. 2.67 crore as on October 19, 2011. It is, thus, alleged that the Noticee had funded its client i.e. Pinac to the tune of Rs. 2.67 crore for the loss incurred in the scrip of TPL on October 14, 2011 and therefore, the Noticee, as the stock broker of Pinac, had aided and abetted Pinac in providing exit to the IPO allottees of TPL on the first day of listing/trading of TPL.
22. From the above, I find that the crux of the matter emanates from the allegation that TPL had diverted its IPO proceeds to certain entities (Pinac being one of them) in order to fund them to provide an exit to the IPO allottees at a premium on the first day of listing of shares of TPL. In this regard, I note that SEBI, vide order dated May 30, 2013 had held the said allegation to be true and had accordingly issued directions against Pinac. Thereafter, Hon'ble SAT, vide its order dated September 19, 2016, passed in the appeal filed by Pinac, had *inter alia* held that the charges of diversion and consequent flow of IPO funds/proceeds from TPL to various entities is not sustainable following the findings recorded by the Hon'ble Tribunal in its order dated June 29, 2016 passed in Appeal No. 372/2014 filed by TPL. The Hon'ble SAT had recorded that *"We find merit in the argument made by the learned Senior Counsel for the appellants on the contention that diversion of IPO funds and thereby part funding of the losses made by the appellant cannot be sustained following the*

order of this Tribunal in case of Tijaria Polypipes Ltd. (Appeal No.372 of 2014 decided on 29/6/2016).” These findings have attained finality, as understood. Since the main charge against Pinac has failed to stand the scrutiny of law, the charge against the Noticee of aiding and abetting Pinac for the same will also not sustain. Therefore, I find that the allegation against the Noticee for violation of Section 12A of the SEBI Act, 1992 and Regulations 3(a), 3(b), 3(c), 3(d), 4(1) and 4(2)(e) of PFUTP Regulations does not stand established.

23. The allegation that now remains to be examined pertains to funding of the trades of Pinac by the Noticee. In this regard, from the client ledger of Pinac that was maintained with the Noticee, it is observed that the credit balance as on October 14, 2011 was Rs.3,97,262. Pursuant to the trades undertaken by Pinac on October 14, 2011, the Noticee received funds amounting to Rs. 3.50 crore from Pinac on October 18, 2011 and October 19, 2011, which resulted in the debit balance being Rs. 2.67 crore as on October 19, 2011. The account continued to remain in debit thereafter and the Noticee allowed Pinac to trade subsequently despite having debit balance. It is, thus, alleged that the Noticee funded Pinac to the tune of Rs. 2.67 crore and violated SEBI Circulars dated February 06, 2003 and August 27, 2003.
24. I note that SEBI Circular No. SEBI/MRD/SE/Cir/33/2003/27/08 dated August 27, 2003 pertains to the mode of payment and delivery for the transactions executed between a client and the stock broker. The circular states that the stock brokers should not accept cash payment from their clients and delivery of securities should be directly from/to the beneficiary accounts of the clients. I find that there is no such allegation made against the Noticee which pertains to mode of payment or delivery in violation of the said circular. Therefore, I find that the alleged violation of SEBI Circular dated August 27, 2003 is not sustainable.
25. I note that SEBI Circular No. SMD/Policy/Cir-06/03 dated February 06, 2003 pertains to the decision to shorten the settlement cycle from T+3 rolling settlement to T+2. As per the circular, pay-in of securities and funds is to be completed on T+2 day. The Noticee has contended that the said circular does

not lay down any obligation/procedure for the broker to take action in case a client fails to meet its pay-in obligations. Thus, in the absence of any such guidelines or rules, it was a regular industry practice to grant exposure to client even if the client had a debit balance based on the risk management of respective broker. The Noticee has submitted that guidelines on the same were only later issued by SEBI vide its circular on “Enhanced Supervision of Stock Brokers/Depository Participants” dated September 26, 2016. The Noticee has also submitted that its act cannot be construed as “funding” since no interest was charged to Pinac. The Noticee had a long standing relation with Pinac as a client since 2006 and had securities worth Rs.2.40 crore kept as margin from Pinac on the trade day. The Noticee has submitted that Pinac had also provided post-dated cheques to fulfill its obligations and the remaining amount was received from Pinac in a staggered manner by December 10, 2011.

26. I note that the Noticee has admitted that it allowed its client i.e. Pinac to trade despite have debit balance. It has been alleged that an amount of Rs. 2.67 crore has been funded by the Noticee. As per the records available, I find that the Noticee had securities valued at Rs. 2.40 crore as margin from Pinac and also collected post-dated cheques from Pinac. I also note that Pinac had made payments of Rs. 3.50 crore by T+2 day and fulfilled its payment obligations by December 10, 2011 i.e. within 40 days from the pay-in date. I also note that while the said SEBI circular required pay-in to be completed by T+2, the modalities in case of non-receipt of funds from clients were not specified. In this regard, NSE vide its circular NSE/INSP/20638 dated April 26, 2012, had specified that *“If debit balances arise out of client’s failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins.”* However, I note that the trades under question were undertaken in 2011 which was prior to the issuance of NSE circular.
27. I further note that the Noticee, being registered as a stock broker, has fiduciary duties towards its clients. As a stock broker, it would not be a prudent business

practice to provide trading exposure to debit balance clients as it would put the broker at higher risk and thereby, increase the risk for rest of the clients of the broker. Thus, I find that although the Noticee may not have violated the letter of the law as the relevant circulars came into force subsequent to the violation, it failed in its obligations as a stock broker by not following prudent business practice as per the spirit of the law. However, considering that Pinac eventually cleared its dues; the impugned trades occurred more than 11 years back; and the Noticee (MPFL and MRBL) underwent debarment/restraint for about 10 months (period from interim order to revocation order), I am inclined to take a lenient view on the allegations and dispose of the matter without any direction. Incidentally, I find that the issue of delay is not material for consideration in the facts of the instant case.

Order:

28. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 12(3) of SEBI Act, 1992 and Section 19 of SEBI Act, 1992 read with Regulation 27 of SEBI (Intermediaries) Regulations, 2008 do hereby dispose of the enquiry proceedings initiated against Monarch Network Capital Limited (SEBI Registration No. INZ000008037) vide the SCN dated February 12, 2021 without any direction.
29. This order comes into force with immediate effect.
30. A copy of this order shall be forwarded to the Noticee.

Date: January 23, 2023

Place: Mumbai

Sd/-

GEETHA G.

CHIEF GENERAL MANAGER

SECURITIES AND EXCHANGE BOARD OF INDIA