

## THIRD DIVISION

[ G.R. No. 204014, December 05, 2016 ]

**PHILIPPINE STOCK EXCHANGE, INC., PETITIONER, V. ANTONIO K. LITONJUA<sup>[1]</sup> AND AURELIO K. LITONJUA, JR., RESPONDENTS.**

### DECISION

**PEREZ, J.:**

Before this Court is a Petition for Review on *Certiorari* filed by the Philippine Stock Exchange, Inc. (PSE) seeking to annul the 23 May 2012 Decision<sup>[2]</sup> and 17 October 2012 Resolution<sup>[3]</sup> of the Court of Appeals (CA) upholding the 22 February 2010 Decision<sup>[4]</sup> of the Pasig City Regional Trial Court (RTC), Branch 154, granting the claim for refund of Antonio K. Litonjua and Aurelio K. Litonjua, Jr. (Litonjua Group).<sup>[5]</sup>

### Antecedent Facts

On 20 April 1999, the Litonjua Group wrote a letter-agreement to Trendline Securities, Inc. (Trendline) through its President Priscilla D. Zapanta (Zapanta), confirming a previous agreement for the acquisition of the 85% majority equity of Trendline's membership seat in PSE, a domestic stock corporation licensed by the Securities and Exchange Commission (SEC) to engage in the business of operating a market for the buying and selling of securities.<sup>[6]</sup> The salient features of the agreement are as follow:

1. The sale of majority equity Membership/Seat equivalent to eighty-five percent (85%) of the value, to Antonio and Aurelio K. Litonjua, Jr., and/or assignees and immediate members of their family (Litonjua Group). The balance of the fifteen percent (15%) equity to be retained by you and/or immediate members of your family;
2. The aggregate price for the Membership/Seat is Twenty-three million Pesos (P23,000,000.00) broken down as follows:

a.	-	P19,555,000.00
Litonjua 85%		
Group equity		
b.	-	P 3,445,00.00
Zapanta 15%		
equity		
Total		P23,000,000.00
Equity:		

3. Terms of Payment

1. On account of the outstanding claims of the Philippine Stock Exchange (PSE), the Litonjua Group is willing to pay in advance direct to PSE the present claims of P18,547,643.81 with the following conditions:
  - a. That the amount of P18,547,643.81 is the entire obligation of Trendline Securities Inc., i.e. as full settlement of all claims and outstanding obligations including interest;
  - b. Upon acceptance of payment and approval of PSE board, PSE will lift the suspension and allow the Litonjua Group to resume the normal trading operation of the Membership/Seat;
  - c. That PSE will agree and accept nominations of our assignee for the Membership/Seat subject to PSE rules, regulations and criteria for accepting a new member or nominee;
  - d. That should the new membership be organized, PSE will approve and register the new member subject to rules, regulations and criteria for accepting a new member corporations.
2. The balance of P1,007,356.19 will be paid after incorporation of the new company to which the membership/seat will be transferred.

The letter was conformed to by Zapanta for and on behalf of Trendline.<sup>[7]</sup>

In a letter-confirmation dated 21 April 1999, the Litonjua Group undertook to pay the amount of P18,547,643.81 directly to PSE within three working days upon confirmation that it will be for the full settlement of all claims and outstanding obligations including interest of Trendline to lift its membership suspension and the resumption to normal trading operation. Further in the letter, Trendline was obligated to secure the approval and written confirmation of PSE for a new corporation to be incorporated that will own a seat.<sup>[8]</sup>

On 26 April 1999, Trendline, in compliance with the conditions set forth in the 20 April 1999 letter-agreement, advised PSE of the salient terms and conditions imposed upon it for the acquisition of the membership/seat.<sup>[9]</sup>

On 29 April 1999, the PSE, through Atty. Ruben L. Almadro (Atty. Almadro), Vice-President for Compliance and Surveillance Department, sent a letter<sup>[10]</sup> to Trendline advising the latter that the Business Conduct and Ethics Committee (BCEC) of PSE has resolved to accept the amount of P19,000,000.00 as full and final settlement of its outstanding obligations to be paid not later than 13 May 1999, broken down as follows:

Unpaid PSE	P15,918,744.14
Advances to Clearing House	
Compromise	<u>3,081,255.86</u>
Fines/Penalties	
	P19,000,000.00

Trendline was further advised that failure to pay the said amount by 13 May 1999 will result to collection in full of imposable fines/penalties and enforcement of payment by selling its seat at public auction.

On 3 May 1999, Trendline sent a reply-letter to PSE acknowledging its receipt of the 29 April 1999 letter and its assurance that the Litonjua Group will comply with the terms of the agreement.<sup>[11]</sup>

In compliance, the Litonjua Group in a letter dated 12 May 1999, delivered to PSE through Atty. Almadro three check payments,<sup>[12]</sup> all dated 13 May 1999 and payable to PSE, totaling to an amount of P19,000,000.00 broken down as follow:

Bank	Check No.	Amount
1. Metro Bank	0127631	P 1,700,000.00
2. Standard Chartered	0000062	P 1,350,000.00
2. Standard Chartered	0000064	P <u>15,950,000.00</u>
		P 19,000,000.00

The letter, as conformed to by Trendline, indicated that the above payment represents the advance payment of the Litonjua Group for the acquisition of the seat/membership with the PSE and as full settlement of the outstanding obligation of Trendline.<sup>[13]</sup>

The letter and checks were received by the PSE from Trendline on 13 May 1999 as evidenced by Official Receipt Number 42264. It bore an annotation that the checks were received as an advance payment for full settlement of Trendline's outstanding obligation to PSE.<sup>[14]</sup>

Trendline, on its part, also sent a letter dated 13 May 1999 advising PSE of the payment of penalties and interest and reactivation of its suspension to seat/membership. Further, PSE was informed that Zapanta had already resigned as Trendline's nominee and in lieu of the position, nominate Aurelio K. Litonjua, Jr. as the new nominee to the seat/membership.<sup>[15]</sup> Despite several exchange of letters of conformity and delivery of checks representing payment of full settlement of Trendline's obligations, PSE failed to lift the suspension imposed on Trendline's seat.<sup>[16]</sup>

On 30 July 2006, the Litonjua Group, through a letter, requested PSE to reimburse the P19,000,000.00 it had paid with interest, upon knowledge that the specific performance by PSE of transferring the membership seat under the agreement will no longer be possible.<sup>[17]</sup>

PSE, however, refused to refund the claimed amount as without any legal basis. As a result, the Litonjua Group on 10 October 2006 filed a Complaint for Collection of

Sum of Money with Damages against PSE before the RTC of Pasig City.<sup>[18]</sup>

PSE presented its version of the facts.

Prior to its re-organization in 2001, PSE was organized as a non-stock corporation with 200 members, one of which was Trendline. As a member, Trendline owns a trading seat with a right to conduct trading activities in the PSE.<sup>[19]</sup>

During the course of its trading activities, Trendline violated some PSE rules in trading and failed to pay its cash settlement payables to the Securities Clearing Corporation of the Philippines in the amount of P113.7 Million. As a result, PSE was compelled to assume Trendline's obligation. PSE, in turn, suspended Trendline's trading privileges.<sup>[20]</sup>

On 30 October 1998, Zapanta negotiated for an extension period until 31 July 1999 to settle its obligations with PSE. In reply, BCEC advised Trendline that it has until 31 March 1999 to settle its obligations to the PSE.<sup>[21]</sup>

Prior to the expiration of the deadline, Trendline and the Litonjua Group were already negotiating for the purchase of the former's membership/seat. Accordingly, a letter-agreement dated 20 April 1999 was issued by the Group providing for the terms of acquisition, without, however, securing the consent of PSE for approval. This letter-agreement, was confirmed by Trendline through the approval of Zapanta.<sup>[22]</sup>

On 12 May 1999, PSE received three checks amounting to P19,000,000.00 for the full settlement of Trendline's outstanding obligation. Trendline, and not the Litonjua Group, was the one indicated as the payor of the obligation.<sup>[23]</sup>

On 26 August 1999, PSE's Compliance and Surveillance Group (CSG) discovered during a follow-up audit that Trendline had a considerable amount of shortfalls and outstanding obligations to its clients, in addition to its unsettled and unliquidated accounts.<sup>[24]</sup> Despite the outstanding obligations due to PSE, Zapanta, on 1 March 2004, requested the PSE's Compliance and Surveillance Group, for an audit of accounts preparatory to the issuance of clearance to transfer their corporate membership seat to the Litonjua Group.<sup>[25]</sup>

Granting the request, the CSG on 8 March 2004 conducted a special audit of Trendline's books and records. It was then confirmed that Trendline was not financially liquid to settle all its outstanding obligations to its clients.<sup>[26]</sup>

On 3 January 2006, Atty. Sixto Jose C. Antonio (Atty. Antonio) sent a letter to PSE informing the latter that Trendline has filed for a petition for corporate rehabilitation before the Regional Trial Court of Manila and that he has been appointed by the court as the rehabilitation receiver.<sup>[27]</sup>

In reply, PSE in a letter dated 6 February 2006 informed Atty. Antonio that 85% of Trendline's membership seat is being claimed by the Litonjua Group. Further, PSE enumerated the names of individuals who have a pending claims against Trendline totaling to P19,600,000.<sup>[28]</sup>

On 30 July 2006, PSE received a demand letter from the Litonjua Group requesting for a reimbursement of its paid P19,000,000.00 with interest reckoned from 13 May

1999.

Declining reimbursement, PSE in its Answer *Ad Cautelam* raised primarily that it received the amount not from the Litonjua Group but from Trendline as a settlement of its obligation. It insisted that the cause of action of the Litonjua Group is against Trendline and not the exchange, the latter being a non-party to the letter agreement.<sup>[29]</sup>

After conclusion of trial, the trial court rendered a decision granting that the Litonjua Group is entitled to claim a refund from PSE. The dispositive portions reads:

WHEREFORE, premises considered, decision is rendered in favor of the plaintiffs and against the defendant PSE ordering the defendant PSE to pay the plaintiffs the amount of:

- (1) [P]19,000,000.00 plus interest thereon at 12% per annum from July 30, 2006;
- (2) Exemplary damages in the amount of [P]1,000,000.00;
- (3) Attorney's fees in the amount of [P]100,000.00, and
- (4) Cost of suit.<sup>[30]</sup>

The decision is anchored on the principle of *solutio indebiti* as defined in Article No. 2154 of the New Civil Code. *If something is received when there is no right to demand it, and it was unduly delivered through mistake, the obligation to return it arises.*<sup>[31]</sup>

The trial court clarified that Litonjua's cause of action is not founded on the 20 April 1999 letter-agreement but on the mistake on the part of the Litonjua Group when it delivered the P19,000,000.00 to PSE on the notion that amount was for the consideration of the trading seat of Trendline. PSE's insistence that it was not a privy to the letter-agreement only bolstered the fact that it was devoid of any right to receive the payment.<sup>[32]</sup>

In addition to the refund, legal interest was likewise imposed from the date of demand reckoned from 30 July 2006 at twelve percent (12%) *per annum*. Also, exemplary damages were imposed due to the continuous refusal of PSE to refund the P19,000,000.00 despite the fact that it received the amount without any right to receive it. Such conduct of PSE was characterized by the trial court as wanton, oppressive and malevolent in nature as defined under Article 2232<sup>[33]</sup> of the New Civil Code justifying the award of exemplary damages. Finally, attorney's fees were awarded in view of the grant of exemplary damages and to the fact that the Litonjua Group was forced to litigate in court to assert its right.<sup>[34]</sup>

Aggrieved, PSE filed an appeal before the CA alleging errors on the part of the trial court when it ruled that (1) the cause of action of the Litonjua Group is based on quasi-contract; (2) in not finding that the party liable for refund is Trendline pursuant to Article 1236<sup>[35]</sup> of the New Civil Code; and lastly, in granting the award of exemplary damages.

On 23 May 2012, the CA affirmed, in the result, the challenged decision of the trial court. The appellate court principally relied on the principle of constructive trust