

## FIRST DIVISION

[ G.R. No. 117604, March 26, 1997 ]

**CHINA BANKING CORPORATION, PETITIONER, VS. COURT OF  
APPEALS, AND VALLEY GOLF AND COUNTRY CLUB, INC.,  
RESPONDENTS.**

### D E C I S I O N

**KAPUNAN, J.:**

Through a petition for review on certiorari under Rule 45 of the Revised Rules of Court, petitioner China Banking Corporation seeks the reversal of the decision of the Court of Appeals dated 15 August 1994 nullifying the Securities and Exchange Commission's order and resolution dated 4 June 1993 and 7 December 1993, respectively, for lack of jurisdiction. Similarly impugned is the Court of Appeals' resolution dated 4 September 1994 which denied petitioner's motion for reconsideration.

The case unfolds thus:

On 21 August 1974, Galicano Calapatia, Jr. (Calapatia, for brevity) a stockholder of private respondent Valley Golf & Country Club, Inc. (VGCCI, for brevity), pledged his Stock Certificate No. 1219 to petitioner China Banking Corporation (CBC, for brevity).<sup>[1]</sup>

On 16 September 1974, petitioner wrote VGCCI requesting that the aforementioned pledge agreement be recorded in its books.<sup>[2]</sup>

In a letter dated 27 September 1974, VGCCI replied that the deed of pledge executed by Calapatia in petitioner's favor was duly noted in its corporate books.<sup>[3]</sup>

On 3 August 1983, Calapatia obtained a loan of P20,000.00 from petitioner, payment of which was secured by the aforestated pledge agreement still existing between Calapatia and petitioner.<sup>[4]</sup>

Due to Calapatia's failure to pay his obligation, petitioner, on 12 April 1985, filed a petition for extrajudicial foreclosure before Notary Public Antonio T. de Vera of Manila, requesting the latter to conduct a public auction sale of the pledged stock.<sup>[5]</sup>

On 14 May 1985, petitioner informed VGCCI of the above-mentioned foreclosure proceedings and requested that the pledged stock be transferred to its (petitioner's) name and the same be recorded in the corporate books. However, on 15 July 1985, VGCCI wrote petitioner expressing its inability to accede to petitioner's request in view of Calapatia's unsettled accounts with the club.<sup>[6]</sup>

Despite the foregoing, Notary Public de Vera held a public auction on 17 September 1985 and petitioner emerged as the highest bidder at P20,000.00 for the pledged stock. Consequently, petitioner was issued the corresponding certificate of sale.<sup>[7]</sup>

On 21 November 1985, VGCCI sent Calapatia a notice demanding full payment of his overdue account in the amount of P18,783.24.<sup>[8]</sup> Said notice was followed by a demand letter dated 12 December 1985 for the same amount<sup>[9]</sup> and another notice dated 22 November 1986 for P23,483.24.<sup>[10]</sup>

On 4 December 1986, VGCCI caused to be published in the newspaper Daily Express a notice of auction sale of a number of its stock certificates, to be held on 10 December 1986 at 10:00 a.m. Included therein was Calapatia's own share of stock (Stock Certificate No. 1219).

Through a letter dated 15 December 1986, VGCCI informed Calapatia of the termination of his membership due to the sale of his share of stock in the 10 December 1986 auction.<sup>[11]</sup>

On 5 May 1989, petitioner advised VGCCI that it is the new owner of Calapatia's Stock Certificate No. 1219 by virtue of being the highest bidder in the 17 September 1985 auction and requested that a new certificate of stock be issued in its name.<sup>[12]</sup>

On 2 March 1990, VGCCI replied that "for reason of delinquency" Calapatia's stock was sold at the public auction held on 10 December 1986 for P25,000.00.<sup>[13]</sup>

On 9 March 1990, petitioner protested the sale by VGCCI of the subject share of stock and thereafter filed a case with the Regional Trial Court of Makati for the nullification of the 10 December 1986 auction and for the issuance of a new stock certificate in its name.<sup>[14]</sup>

On 18 June 1990, the Regional Trial Court of Makati dismissed the complaint for lack of jurisdiction over the subject matter on the theory that it involves an intra-corporate dispute and on 27 August 1990 denied petitioner's motion for reconsideration.

On 20 September 1990, petitioner filed a complaint with the Securities and Exchange Commission (SEC) for the nullification of the sale of Calapatia's stock by VGCCI; the cancellation of any new stock certificate issued pursuant thereto; for the issuance of a new certificate in petitioner's name; and for damages, attorney's fees and costs of litigation.

On 3 January 1992, SEC Hearing Officer Manuel P. Perea rendered a decision in favor of VGCCI, stating in the main that "(c)onsidering that the said share is delinquent, (VGCCI) had valid reason not to transfer the share in the name of the petitioner in the books of (VGCCI) until liquidation of delinquency."<sup>[15]</sup> Consequently, the case was dismissed.<sup>[16]</sup>

On 14 April 1992, Hearing Officer Perea denied petitioner's motion for reconsideration.<sup>[17]</sup>

Petitioner appealed to the SEC en banc and on 4 June 1993, the Commission issued an order reversing the decision of its hearing officer. It declared thus:

The Commission en banc believes that appellant-petitioner has a prior right over the pledged share and because of pledgor's failure to pay the principal debt upon maturity, appellant-petitioner can proceed with the foreclosure of the pledged share.

WHEREFORE, premises considered, the Orders of January 3, 1992 and April 14, 1992 are hereby SET ASIDE. The auction sale conducted by appellee-respondent Club on December 10, 1986 is declared NULL and VOID. Finally, appellee-respondent Club is ordered to issue another membership certificate in the name of appellant-petitioner bank.

SO ORDERED.<sup>[18]</sup>

VGCCI sought reconsideration of the abovesited order. However, the SEC denied the same in its resolution dated 7 December 1993.<sup>[19]</sup>

The sudden turn of events sent VGCCI to seek redress from the Court of Appeals. On 15 August 1994, the Court of Appeals rendered its decision nullifying and setting aside the orders of the SEC and its hearing officer on ground of lack of jurisdiction over the subject matter and, consequently, dismissed petitioner's original complaint. The Court of Appeals declared that the controversy between CBC and VGCCI is not intra-corporate. It ruled as follows:

In order that the respondent Commission can take cognizance of a case, the controversy must pertain to any of the following relationships: (a) between the corporation, partnership or association and the public; (b) between the corporation, partnership or association and its stockholders, partners, members, or officers; (c) between the corporation, partnership or association and the state in so far as its franchise, permit or license to operate is concerned, and (d) among the stockholders, partners or associates themselves (Union Glass and Container Corporation vs. SEC, November 28, 1983, 126 SCRA 31). The establishment of any of the relationship mentioned will not necessarily always confer jurisdiction over the dispute on the Securities and Exchange Commission to the exclusion of the regular courts. The statement made in Philex Mining Corp. vs. Reyes, 118 SCRA 602, that the rule admits of no exceptions or distinctions is not that absolute. The better policy in determining which body has jurisdiction over a case would be to consider not only the status or relationship of the parties but also the nature of the question that is the subject of their controversy (Viray vs. Court of Appeals, November 9, 1990, 191 SCRA 308, 322-323).

Indeed, the controversy between petitioner and respondent bank which involves ownership of the stock that used to belong to Calapatia, Jr. is not within the competence of respondent Commission to decide. It is not any of those mentioned in the aforecited case.

WHEREFORE, the decision dated June 4, 1993, and order dated December 7, 1993 of respondent Securities and Exchange Commission (Annexes Y and BB, petition) and of its hearing officer dated January 3, 1992 and April 14, 1992 (Annexes S and W, petition) are all nullified and set aside for lack of jurisdiction over the subject matter of the case. Accordingly, the complaint of respondent China Banking Corporation (Annex Q, petition) is DISMISSED. No pronouncement as to costs in this instance.

SO ORDERED.<sup>[20]</sup>

Petitioner moved for reconsideration but the same was denied by the Court of Appeals in its resolution dated 5 October 1994.<sup>[21]</sup>

Hence, this petition wherein the following issues were raised:

## **II**

### **ISSUES**

WHETHER OR NOT RESPONDENT COURT OF APPEALS (Former Eighth Division) GRAVELY ERRED WHEN:

1. IT NULLIFIED AND SET ASIDE THE DECISION DATED JUNE 04, 1993 AND ORDER DATED DECEMBER 07, 1993 OF THE SECURITIES AND EXCHANGE COMMISSION EN BANC, AND WHEN IT DISMISSED THE COMPLAINT OF PETITIONER AGAINST RESPONDENT VALLEY GOLF ALL FOR LACK OF JURISDICTION OVER THE SUBJECT MATTER OF THE CASE;
2. IT FAILED TO AFFIRM THE DECISION OF THE SECURITIES AND EXCHANGE COMMISSION EN BANC DATED JUNE 04, 1993 DESPITE PREPONDERANT EVIDENCE SHOWING THAT PETITIONER IS THE LAWFUL OWNER OF MEMBERSHIP CERTIFICATE NO. 1219 FOR ONE SHARE OF RESPONDENT VALLEY GOLF.

The petition is granted.

The basic issue we must first hurdle is which body has jurisdiction over the controversy, the regular courts or the SEC.

P.D. No. 902-A conferred upon the SEC the following pertinent powers:

SECTION 3. The Commission shall have absolute jurisdiction, supervision and control over all corporations, partnerships or associations, who are the grantees of primary franchises and/or a license or permit issued by the government to operate in the Philippines, and in the exercise of its authority, it shall have the power to enlist the aid and support of and to deputize any and all enforcement agencies of the government, civil or military as well as any private institution, corporation, firm, association or person.

SECTION 5. In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of associations registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving:

- a) Devices or schemes employed by or any acts of the board of directors, business associates, its officers or partners, amounting to fraud and misrepresentation which may be detrimental to the interest of the public and/or of the stockholders, partners, members of associations or organizations registered with the Commission.
- b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates; between any or all of them and the corporation, partnership or association of which they are stockholders, members or associates, respectively; and between such corporation, partnership or association and the State insofar as it concerns their individual franchise or right to exist as such entity;
- c) Controversies in the election or appointment of directors, trustees, officers, or managers of such corporations, partnerships or associations.
- d) Petitions of corporations, partnerships or associations to be declared in the state of suspension of payments in cases where the corporation, partnership or association possesses property to cover all of its debts but foresees the impossibility of meeting them when they respectively fall due or in cases where the corporation, partnership or association has no sufficient assets to cover its liabilities, but is under the Management Committee created pursuant to this Decree.

The aforecited law was expounded upon in *Viray v. CA*<sup>[22]</sup> and in the recent cases of *Mainland Construction Co., Inc. v. Movilla*<sup>[23]</sup> and *Bernardo v. CA*,<sup>[24]</sup> thus:

. . . The better policy in determining which body has jurisdiction over a case would be to consider not only the status or relationship of the parties but also the nature of the question that is the subject of their controversy.

Applying the foregoing principles in the case at bar, to ascertain which tribunal has jurisdiction we have to determine therefore whether or not petitioner is a stockholder of VGCCI and whether or not the nature of the controversy between petitioner and private respondent corporation is intra-corporate.

As to the first query, there is no question that the purchase of the subject share or membership certificate at public auction by petitioner (and the issuance to it of the corresponding Certificate of Sale) transferred ownership of the same to the latter and thus entitled petitioner to have the said share registered in its name as a member of VGCCI. It is readily observed that VGCCI did not assail the transfer