



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

SECURITIES AND EXCHANGE COMMISSION, G.R. No. 179047

Petitioner,

Present:

CARPIO, J., Chairperson,
BRION,
DEL CASTILLO,
PEREZ,* and
LEONEN, JJ.

-versus-

SUBIC BAY GOLF AND COUNTRY
CLUB, INC. AND UNIVERSAL
INTERNATIONAL GROUP
DEVELOPMENT CORPORATION,

Respondents.

Promulgated:

11 MAR 2015

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Atty. Catalina Infante

DECISION

LEONEN, J.:

Intra-corporate controversies, previously under the Securities and Exchange Commission's jurisdiction, are now under the jurisdiction of Regional Trial Courts designated as commercial courts. However, the transfer of jurisdiction to the trial courts does not oust the Securities and Exchange Commission of its jurisdiction to determine if administrative rules and regulations were violated.

In this Petition for Review¹ on Certiorari under Rule 45 of the Rules of Court, petitioner Securities and Exchange Commission prays for the

* Designated additional member per Raffle dated 24 February 2010.

¹ Rollo, pp. 13-43.

reversal of the Court of Appeals' July 31, 2007 Decision.² The Court of Appeals declared void the Securities and Exchange Commission's February 10, 2004 Decision affirming its Corporation Finance Department's Order³ to refund payments for Subic Bay Golf and Country Club, Inc.'s shares of stock.⁴

Subic Bay Golf Course, also known as Binictican Valley Golf Course, was operated by Subic Bay Metropolitan Authority (SBMA) under the Bases Conversion Development Authority (BCDA).⁵ Universal International Group of Taiwan (UIG), a Taiwanese corporation, was chosen to implement the plan to privatize the golf course.⁶

On May 25, 1995, SBMA and UIG entered into a Lease and Development Agreement. Under the agreement, SBMA agreed to lease the golf course to UIG for 50 years, renewable for another 25 years.⁷ UIG agreed to "develop, manage and maintain the golf course and other related facilities within the complex[.]"⁸ Later, Universal International Group Development Corporation (UIGDC) succeeded to the interests of UIG on the golf course development.⁹

On April 1, 1996, UIGDC executed a Deed of Assignment in favor of Subic Bay Golf and Country Club, Inc. (SBGCCI). Under the Deed of Assignment, UIGDC assigned all its rights and interests in the golf course's development, operations, and marketing to SBGCCI.¹⁰

On April 25, 1996, SBGCCI and UIGDC entered into a Development Agreement.¹¹ UIGDC agreed to "finance, construct and develop the [golf course], for and in consideration of the payment by [SBGCCI] of its 1,530 (SBGCCI) shares of stock."¹²

Upon SBGCCI's application, the Securities and Exchange Commission issued an Order for the Registration of 3,000 no par value shares of SBGCCI on July 8, 1996. SBGCCI was issued a Certificate of Permit to Offer Securities for Sale to the Public of its 1,530 no par value

² Id. at 44–71. The case, docketed as CA-G.R. SP No. 84292 and titled *Subic Bay Golf and Country Club, Inc. and Universal International Group Development Corporation v. Regina S. Filart, Margarita G. Villareal and Securities and Exchange Commission*, was penned by Associate Justice Jose Catral Mendoza and concurred in by Associate Justices Andres B. Reyes, Jr. (Chair) and Ramon M. Bato, Jr. of the Seventh Division of the Court of Appeals.

³ Id. at 78–89.

⁴ Id. at 2.

⁵ Id. at 80.

⁶ Id.

⁷ Id.

⁸ Id.

⁹ Id. at 81.

¹⁰ Id.

¹¹ Id.

¹² Id.

proprietary shares on August 9, 1996. The shares were sold at ₱425,000.00 per share. SBGCCI would use the proceeds of the sale of securities to pay UIGDC for the development of the golf course.¹³

In the letter¹⁴ dated November 4, 2002 addressed to Atty. Justina Callangan, Director of Securities and Exchange Commission's Corporation Finance Department, complainants Regina Filart (Filart) and Margarita Villareal (Villareal) informed the Securities and Exchange Commission that they had been asking UIGDC for the refund of their payment for their SBGCCI shares. UIGDC did not act on their requests.¹⁵ They alleged that they purchased the shares in 1996 based on the promise of SBGCCI and UIGDC to deliver the following:

- a. an 18 hole golf course that would meet the highest USGA and PGA standards.
- b. A 9 hole executive course which would be completely illuminated to allow members to play after dark
- c. A swimming pool and tennis courts
- d. Golf Villas and Residential Condominium-Hotel
- e. Driving range of 30 berths provided with a roof and illuminated to afford nighttime driving.
- f. Club facilities with a restaurant which will offer French, Filipino and Chinese cuisine and 7 well-furnished VIP rooms which are equipped with the latest toilet and bath facilities and are available for private meetings and conferences.¹⁶

However, these promises were not delivered.¹⁷

Villareal and Filart also claimed that despite SBGCCI's and UIGDC's failure to deliver the promised amenities, they started to charge them monthly dues. They also never received any billing statement from them until they were sent a demand notice to pay the alleged back dues of ₱39,000.00 within five (5) days. They were threatened that their shares amounting to ₱740,000.00 and paid off in December 1996 would be auctioned off if their alleged back dues would not be paid.¹⁸ Villareal and Filart prayed for relief from the "terrible situation [they found themselves] in."¹⁹ They also prayed that their letter be accepted "as a formal complaint against Universal International Group Development Corporation for breach of promise/contract with its investors who put in hard-earned money believing that they would deliver what their brochures promised to deliver."²⁰

¹³ Id.

¹⁴ Id. at 72–73.

¹⁵ Id. at 72.

¹⁶ Id.

¹⁷ Id.

¹⁸ Id. at 73.

¹⁹ Id.

²⁰ Id.

In their Comment,²¹ SBGCCCI and UIGDC averred that they had already substantially complied with their commitment to provide the members a world-class golf and country club.²² The construction of the golf course substantially met international standards.²³ Other proposed project developments such as the construction of villas and residential condominium-hotels were not included in the rights purchased with member shares.²⁴ They also denied that they failed to send monthly billing statements to Filart and Villareal.²⁵

SBGCCCI and UIGDC also stressed that SBMA, under its Contract of Lease, was the one duty-bound to complete the golf course and amenities. It would be in breach of contract if it failed to complete the golf course and the amenities. Insofar as SBGCCCI’s commitments were concerned, it was able to fully comply with its obligations.²⁶

In January 2003, the Securities and Exchange Commission’s Corporation Finance Department conducted an ocular inspection of the project. Based on the Memorandum Report prepared by Julius H. Baltazar, Specialist I, SBGCCCI and UIGDC failed to comply substantially with their commitment to complete the project.²⁷ According to the Report:

Project Description based on Work Program	Completion date/cost per Prospectus	Findings per ocular inspection as of January 3, 2003
Reconstruction/rehabilitation of the 18-hole golf course. This includes the construction of the following: 1. greens 2. fairways 3. road/cart paths 4. bridges 5. drainage & irrigation system 6. driving range 7. tee houses	Before November 1996 P301,600[,]000.	The 18-hole golf course is already existing and playable. It was observed that the grass in some parts of the 18-hole course is dry and withered The road/cart paths are fully concrete and passable, bridges, drainage and irrigation systems are in place. There is a driving range with roof and 7 berths and one (1) tee house in hole # 3.
Construction of additional 9-hole course.	After November 1996 P156,000,000	The construction of the additional 9-hole course has not yet started.

²¹ Id. at 74–77.
²² Id. at 74.
²³ Id. The standards referred to were the United States Golf Association standards.
²⁴ Id. at 75.
²⁵ Id. at 76.
²⁶ Id.
²⁷ Id. at 83.

Construction/renovation of Clubhouse with the following facilities: 1. dining areas 2. function rooms 3. indoor and outdoor tennis courts 4. 25-meter swimming pool 5. gyms 6. saunas and massage room 7. sport shops Condominiums, Residential Villas, 250-bedroom hotel and a conference center	Before November 1996 P192,400,000	The clubhouse has a dining area, function room, 6 VIP rooms, sport shop, one (1) restaurant and men & ladies locker rooms. It has no sauna and massage rooms. Beside the clubhouse is a swimming pool with no water and one (1) tennis court, [sic] that are both poorly maintained. There is [sic] none. ²⁸
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In the July 1, 2003 Order, the Securities and Exchange Commission’s Corporation Finance Department gave due course to Villareal and Filart’s letter-complaint:²⁹

WHEREFORE, upon consideration of the foregoing, the complaint of REGINA S. FILART and MARGARITA G. VILLAREAL is hereby given DUE COURSE.

Respondents SUBIC BAY GOLF AND COUNTRY CLUB, INC. and UNIVERSAL INTERNATIONAL GROUP DEVELOPMENT CORPORATION, are hereby ordered to *refund* to REGINA S. FILART and MARGARITA G. VILLAREAL, within ten (10) days from receipt of this Order, the total purchase price of their shares of stock issued by Subic Bay Golf and Country Club, Inc., in the amount of P740,000.00 each, or a total of P1,480,000.00.

SUBIC BAY GOLF and COUNTRY CLUB, INC. is likewise hereby ordered to amend its Prospectus, reflecting therein the actual status of the facilities of the club, and to comply with the requirements of SRC Rule 14.

Furthermore, due to its failure to comply with its undertakings in its Registration Statement and Prospectus, tantamount to misrepresentation, and in violation of the provisions of the Securities Regulation Code, and its implementing rules and regulation, the Certificate of Registration and Permit to Sell Securities to the Public issued to respondent Subic Bay Golf and Country Club, Inc., are hereby **SUSPENDED** until the aforementioned misrepresentations are rectified and the requirements of this Order are complied with. The Commission

²⁸ Id. at 83–84.
²⁹ Id. at 45.

shall make a determination, within thirty (30) days, whether or not such registration should be revoked.

And, pursuant to Section 54 of the Code, respondent corporations, SUBIC BAY GOLF AND COUNTRY CLUB, INC. and UNIVERSAL INTERNATIONAL GROUP DEVELOPMENT CORPORATION, are hereby fined the amount of P100,000.00.

SO ORDERED.³⁰ (Emphasis in the original)

The Corporation Finance Department found that Filart and Villareal invested in the golf course because of SBGCCI and UIGDC's representation that a 27-hole, world-class golf course would be developed.³¹ It also found that SBGCCI and UIGDC failed to comply with their commitments and representations as stated in their prospectus.³²

The Corporation Finance Department ordered the return of the purchase price of shares pursuant to Rule 14³³ of the Implementing Rules and Regulations of Republic Act No. 8799 or the Securities Regulation Code. It explained that the non-completion of the golf course constituted a material amendment in the prospectus. The prospectus had become misleading, tending to work a fraud. This gave the purchasers the right to a refund of their contributions.³⁴

SBGCCI and UIGDC filed a Petition for Review³⁵ of the Corporation Finance Department's Order before the Securities and Exchange Commission. SBGCCI and UIGDC assailed the Corporation Finance Department's and the Securities and Exchange Commission's authority to order a refund of investments. They also assailed its jurisdiction over the case, which according to SBGCCI and UIGDC involved an intra-corporate dispute. They argued that the Corporation Finance Department's Order was issued without due process.³⁶

On February 10, 2004, the Securities and Exchange Commission rendered the Decision³⁷ affirming the July 1, 2003 Order of the Corporation Finance Department:

³⁰ Id.

³¹ Id. at 84.

³² Id.

³³ Rep. Act No. 8799 (2000), sec. 14 provides:
SRC Rule 14 – Amendments to the Registration Statement

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c. where material amendments have been made to the prospectus after the effective date thereof, purchasers may . . . renounce their purchase of securities, whereupon the issuer, or any person acting on behalf of the issuer in connection with the distribution of said securities, shall, within ten (10) days of receipt of notification of such election, return the contributions paid by such purchasers without making any deductions. . . .

³⁴ *Rollo*, pp. 88–89.

³⁵ Id. at 90–97.

³⁶ Id. at 100–101.

³⁷ Id. at 98–107.

WHEREFORE, in view of the foregoing, the PETITION is hereby **DENIED**. The July 1, 2003 ORDER of the Corporate Finance Department is hereby **AFFIRMED**.

SO ORDERED.³⁸

The Securities and Exchange Commission ruled that the Corporation Finance Department's proceedings were administrative in nature. It was only conducted to determine if SBGCCI and UIGDC violated the Securities and Exchange Commission's rules and regulations. While Villareal and Filart's letter-complaint alleged intra-corporate matters, it also alleged matters pertaining to SBGCCI and UIGDC's compliance with the prospectus and registration statements. The Securities and Exchange Commission has the authority to investigate possible acts of abuse of franchise and violations of its rules and regulations. It also has the power to impose appropriate administrative sanctions. The Corporation Finance Department only exercised these powers.³⁹

The Corporation Finance Department, tasked to oversee securities registration, has the implied power to suspend or revoke registration upon showing of violations of the Securities and Exchange Commission's rules and regulations. Based on Section 4.6 of the Securities Regulation Code, the Securities and Exchange Commission has the power to delegate some of its functions to any of its departments.⁴⁰

On SBGCCI and UIGDC's allegation that they were not given due process, the Securities and Exchange Commission ruled that suspension of permit to sell securities does not require a full-blown hearing. In any case, SBGCCI and UIGDC were served notice and given an opportunity to present their case. They were even able to file their Comment on the letter-complaint on January 6, 2003.⁴¹

The Securities and Exchange Commission added that the Corporation Finance Department's directive to return the purchasers' investments was in accordance with the rules. Rule 14 of the Securities Regulation Code allows purchasers to renounce their securities.⁴²

SBGCCI and UIGDC filed a Motion for Reconsideration of the February 10, 2004 Securities and Exchange Commission Decision, but this was denied in the Order⁴³ dated April 6, 2004.⁴⁴

³⁸ Id. at 107.

³⁹ Id. at 101–102.

⁴⁰ Id. at 104.

⁴¹ Id. at 104–105.

⁴² Id. at 107.

⁴³ Id. at 108–109.

SBGCCI and UIGDC filed a Petition for Review⁴⁵ of the Securities and Exchange Commission's February 10, 2004 Decision before the Court of Appeals.⁴⁶ They argued that the letter-complaint filed by Villareal and Filart involved an intra-corporate dispute that was under the jurisdiction of the Regional Trial Court and not the Securities and Exchange Commission.⁴⁷ They also argued that the Securities Regulation Code does not grant the Securities and Exchange Commission the power to order the refund of payment for shares of stock.⁴⁸

On July 31, 2007, the Court of Appeals declared void the February 10, 2004 Decision of the Securities and Exchange Commission insofar as it ordered the refund of the purchase price of Filart's and Villareal's investments.⁴⁹ Thus:

WHEREFORE, the February 10, 2004 Decision of the Securities and Exchange Commission in CFD-AA-Case No. 08-03-36, affirming the July 1, 2003 Order of the Corporate Finance Department, insofar as it ordered the refund of the purchase price of the shares of stock of petitioner SBGCCI, is hereby declared NULL and VOID for lack of jurisdiction.

SO ORDERED.⁵⁰

The Court of Appeals found that the case involved an intra-corporate controversy. The Securities and Exchange Commission acted in excess of its jurisdiction when it ordered UIGDC and SBGCCI to refund Villareal and Filart the amount they paid for SBGCCI shares of stock. The authority to exercise powers necessary to carry out the objectives of the Securities and Exchange Commission does not include the authority to refund investments. This power has been transferred to the Regional Trial Court. The Securities and Exchange Commission should have limited its exercise of power to issuing an order imposing a fine, to amend the prospectus, and to suspend the Certificate of Registration and Permit to Sell Securities to the Public.⁵¹

Hence, this petition was filed.

The Securities and Exchange Commission argues that Villareal and Filart's letter-complaint of November 4, 2002 did not only raise matters involving intra-corporate relations. Their letter-complaint also stated serious violations of the Securities Regulation Code, which may require the

⁴⁴ Id. at 45 and 108.

⁴⁵ Id. at 110–127. The Petition for Review was filed pursuant to Rule 43 of the Rules of Court.

⁴⁶ Id. at 110.

⁴⁷ Id. at 54.

⁴⁸ Id. at 57.

⁴⁹ Id. at 71.

⁵⁰ Id.

⁵¹ Id. at 63–64.

Securities and Exchange Commission's intervention.⁵² The Commission did not adjudicate private rights or awarded damages.⁵³ It only determined whether SBGCCI and UIGDC committed misrepresentations,⁵⁴ in violation of the Securities Regulation Code and its implementing rules.⁵⁵

The Securities and Exchange Commission contends that its Order to return the stock purchasers' contributions is in accordance with Rule 14, Section 1(c)⁵⁶ of the Implementing Rules and Regulations of the Securities Regulation Code.⁵⁷ This provision is within the Securities and Exchange Commission's rule-making power under Section 143⁵⁸ of the Corporation Code and Section 5(g) and (n)⁵⁹ of the Securities Regulation Code.⁶⁰ Section 1(c) is necessary to implement the Securities Regulation Code's mandate "to protect the investing public from unscrupulous corporations taking advantage of every situation[.]"⁶¹

The Securities and Exchange Commission points out that Villareal and Filart had been demanding from SBGCCI and UIGDC the return of their investments. Its Corporation Finance Department already directed SBGCCI and UIGDC to amend their prospectus and registration statements to comply with the Securities Regulation Code. However, SBGCCI and UIGDC failed to comply.⁶²

⁵² Id. at 30.

⁵³ Id. at 32.

⁵⁴ Id. at 35.

⁵⁵ Id. at 32.

⁵⁶ Rep. Act No. 8799 (2000), sec. 14 provides:
SRC Rule 14 – Amendments to the Registration Statement
1.

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c. where material amendments have been made to the prospectus after the effective date thereof, purchasers may, within thirty (30) days from the date of such notification, renounce their purchase of securities, whereupon the issuer, or any person acting on behalf of the issuer in connection with the distribution of said securities, shall, within ten (10) days of receipt of notification of such election, return the contributions paid by such purchasers without making any deductions. Purchasers who decide not to renounce their purchase of securities shall be subject to the terms of the amended offering.

⁵⁷ Id. at 36.

⁵⁸ SEC. 143. *Rule-making power of the Securities and Exchange Commission.*—The Securities and Exchange Commission shall have the power and authority to implement the provisions of this Code, and to promulgate rules and regulations reasonably necessary to enable it to perform its duties hereunder, particularly in the prevention of fraud and abuses on the part of the controlling stockholders, members, directors, trustees or officers.

⁵⁹ SEC. 5. *Powers and Functions of the Commission.*

5.1. The Commission shall act with transparency and shall have the powers and functions provided by this Code, Presidential Decree No. 902-A, the Corporation Code, the Investment Houses Law, the Financing Company Act and other existing laws. Pursuant thereto the Commission shall have, among others, the following powers and functions:

.

(g) Prepare, approve, amend or repeal rules, regulations and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations and orders;

.

(n) Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to the carrying out of, the express powers granted the Commission to achieve the objectives and purposes of these laws.

⁶⁰ Id. at 36–37.

⁶¹ Id. at 38.

⁶² Id. at 40.

In their Comment,⁶³ SBGDCC and UIGDC insist that the case involved an intra-corporate dispute over which only the Regional Trial Court has jurisdiction.⁶⁴ The Securities and Exchange Commission has no authority to order the return of payments made by Villareal and Filart.⁶⁵ Even assuming that the Securities and Exchange Commission has jurisdiction over intra-corporate cases, there should first be a disagreement over prospectus amendments before paid contributions can be refunded.⁶⁶

We determine which between the Securities and Exchange Commission and the Regional Trial Court has jurisdiction over this case. We also determine whether the Securities and Exchange Commission has the authority to order the return of purchase price of securities upon finding that there were fraudulent representations in the prospectus.

We rule for SBGCCI and UIGDC.

Under Presidential Decree No. 902-A,⁶⁷ the Securities and Exchange Commission has jurisdiction over acts amounting to fraud and misrepresentation by a corporation's board of directors, business associates, and officers. It also provides that it has jurisdiction over intra-corporate disputes. Thus:

WHEREAS, in line with the government's policy of encouraging investments, both domestic and foreign, and more active public participation in the affairs of private corporations and enterprises through which desirable activities may be pursued for the promotion of economic development; and, to promote a wider and more meaningful equitable distribution of wealth, there is a need for an agency of the government to be invested with ample powers to protect such investment and the public;

....

SEC. 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 stockholder, partners, members of associations or organizations registered with the Commission;

⁶³ Id. at 311–317.

⁶⁴ Id. at 311.

⁶⁵ Id. at 314.

⁶⁶ Id. at 316.

⁶⁷ Reorganization of the Securities and Exchange Commission with Additional Powers and Placing the Said Agency under the Administrative Supervision of the Office of the President.

- 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 appointments of directors, trustees, officers or managers of such corporations, partnerships or associations.

However, jurisdiction over intra-corporate disputes and all other cases enumerated in Section 5 of Presidential Decree No. 902-A had already been transferred to designated Regional Trial Courts. Section 5.2 of Republic Act No. 8799 provides:

- 5.2. The Commission's jurisdiction over all cases enumerated under Section 5 of Presidential Decree No. 902-A is hereby transferred to the Courts of general jurisdiction or the appropriate Regional Trial Court: *Provided*, that the Supreme Court in the exercise of its authority may designate the Regional Trial Court branches that shall exercise jurisdiction over these cases. The Commission shall retain jurisdiction over pending cases involving intra-corporate disputes submitted for final resolution which should be resolved within one (1) year from the enactment of this Code. The Commission shall retain jurisdiction over pending suspension of payments/rehabilitation cases filed as of 30 June 2000 until fully disposed.

Hence, actions pertaining to intra-corporate disputes should be filed directly before designated Regional Trial Courts. Intra-corporate disputes brought before other courts or tribunals are dismissible for lack of jurisdiction.⁶⁸

For a dispute to be "intra-corporate," it must satisfy the relationship and nature of controversy tests.⁶⁹

The relationship test requires that the dispute be between a corporation/partnership/association and the public; a corporation/partnership/association and the state regarding the entity's franchise, permit, or license to operate; a corporation/partnership/association

⁶⁸ RULES OF COURT, Rule 16, sec. 1(b) provides:
SECTION 1. *Grounds*. – Within the time for but before filing the answer to the complaint or pleading asserting a claim, a motion to dismiss may be made on any of the following grounds:

.....
(b) That the court has no jurisdiction over the subject matter of the claim[.]

⁶⁹ See *Matling Industrial and Commercial Corporation, et al. v. Coros*, 647 Phil. 324 (2010) [Per J. Bersamin, Third Division].

and its stockholders, partners, members, or officers; and among stockholders, partners, or associates of the entity.⁷⁰

The nature of the controversy test requires that the action involves the enforcement of corporate rights and obligations.

Courts and tribunals must consider both the parties' relationship and the nature of the controversy to determine whether they should assume jurisdiction over a case. In *Medical Plaza Makati Condominium Corporation v. Cullen*:⁷¹

[T]he controversy must not only be rooted in the existence of an intra-corporate relationship, but must as well pertain to the enforcement of the parties' correlative rights and obligations under the Corporation Code and the internal and intra-corporate regulatory rules of the corporation." In other words, jurisdiction should be determined by considering both the relationship of the parties as well as the nature of the question involved.⁷² (Citations omitted)

This case is an intra-corporate dispute, over which the Regional Trial Court has jurisdiction. It involves a dispute between the corporation, SBGCCCI, and its shareholders, Villareal and Filart.

This case also involves corporate rights and obligations. The nature of the action — whether it involves corporate rights and obligations — is determined by the allegations and reliefs in the complaint.⁷³

Villareal and Filart's right to a refund of the value of their shares was based on SBGCCCI and UIGDC's alleged failure to abide by their representations in their prospectus. Specifically, Villareal and Filart alleged in their letter-complaint that the world-class golf course that was promised to them when they purchased shares did not materialize. This is an intra-corporate matter that is under the designated Regional Trial Court's jurisdiction. It involves the determination of a shareholder's rights under the Corporation Code or other intra-corporate rules when the corporation or association fails to fulfill its obligations.

However, even though the Complaint filed before the Securities and Exchange Commission contains allegations that are intra-corporate in nature, it does not necessarily oust the Securities and Exchange Commission of its

⁷⁰ *Yujuico v. Quiambao*, 542 Phil. 236, 247 (2007) [Per J. Sandoval-Gutierrez, First Division].

⁷¹ G.R. No. 181416, November 11, 2013, 709 SCRA 110 [Per J. Peralta, Third Division].

⁷² *Id.* at 120–121.

⁷³ *See Medical Plaza Makati Condominium Corporation v. Cullen*, G.R. No. 181416, November 11, 2013, 709 SCRA 110, 121 [Per J. Peralta, Third Division]. *See also Gochan v. Young*, 406 Phil. 663, 673–674 (2001) [Per J. Panganiban, Third Division].

regulatory and administrative jurisdiction to determine and act if there were administrative violations committed.

The Securities and Exchange Commission is organized in line with the policy of encouraging and protecting investments.⁷⁴ It also administers the Securities Regulation Code,⁷⁵ which was enacted to “promote the development of the capital market, protect investors, ensure full and fair disclosure about securities, [and] minimize if not totally eliminate insider trading and other fraudulent or manipulative devices and practices which create distortions in the free market.”⁷⁶ Pursuant to these policies, the Securities and Exchange Commission is given regulatory powers⁷⁷ and “absolute jurisdiction, supervision and control over all corporations, partnerships or associations. . . .”⁷⁸

In relation to securities, the Securities and Exchange Commission’s regulatory power pertains to the approval and rejection, and suspension or revocation, of applications for registration of securities⁷⁹ for, among others, violations of the law, fraud, and misrepresentations. Thus:

⁷⁴ Pres. Decree No. 902-A (1976) provides:

WHEREAS, in line with the government’s policy of encouraging investments, both domestic and foreign, and more active public participation in the affairs of private corporations and enterprises through which desirable activities may be pursued for the promotion of economic development; and, to promote a wider and more meaningful equitable distribution of wealth, there is a need for an agency of the government to be invested with ample powers to protect such investment and the public[.]

⁷⁵ Rep. Act No. 8799 (2000), sec. 4 provides:

SEC. 4. *Administrative Agency.* – 4.1. This Code shall be administered by the Securities and Exchange Commission (hereinafter referred to as the “Commission”)[.]

⁷⁶ Rep. Act No. 8799 (2000), sec. 2.

⁷⁷ Pres. Decree No. 902-A (1976), sec. 5 provides:

SEC. 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. . . .

SEC. 6. In order to effectively exercise such jurisdiction, the Commission shall possess the following powers:

....

- f. To impose fines and/or penalties for violation of this Decree or any other laws being implemented by the Commission, the pertinent rules and regulations, its orders, decisions and/or rulings;
- g. To authorize the establishment and operation of stock exchanges, commodity exchanges and such other similar organizations and to supervise and regulate the same; including the authority to determine their number, size and location, in the light of national or regional requirements for such activities with the view to promote, conserve or rationalize investment;
- h. To pass upon, refuse or deny, after consultation with the Board of Investments, Department of Industry, National Economic and Development Authority or any other appropriate government agency, the application for registration of any corporation, partnership or association or any form of organization falling within its jurisdiction, if their establishment, organization or operation will not be consistent with the declared national economic policies.
- i. To suspend, or revoke, after, proper notice and hearing, the franchise or certificate of registration of corporation, partnerships or associations, upon any of the grounds provided by law[.]

⁷⁸ Pres. Decree No. 902-A (1976), sec. 3.

⁷⁹ Rep. Act No. 8799 (2000), sec. 5 provides:

SEC. 5. *Powers and Functions of the Commission.* – 5.1. . . .

....

- c. Approve, reject, suspend, revoke or require amendments to registration statements, and registration and licensing applications[.]

SEC. 13. *Rejection and Revocation of Registration of Securities.* –

13.1. The Commission may reject a registration statement and refuse registration of the security thereunder, or revoke the effectivity of a registration statement and the registration of the security thereunder after due notice and hearing by issuing an order to such effect, setting forth its findings in respect thereto, if it finds that:

- a. The issuer:
 - i. Has been judicially declared insolvent;
 - ii. Has violated any of the provisions of this Code, the rules promulgated pursuant thereto, or any order of the Commission of which the issuer has notice in connection with the offering for which a registration statement has been filed;
 - iii. Has been engaged or is about to engage in fraudulent transactions;
 - iv. Has made any false or misleading representation of material facts in any prospectus concerning the issuer or its securities;
 - v. Has failed to comply with any requirement that the Commission may impose as a condition for registration of the security for which the registration statement has been filed; or
- b. The registration statement is on its face incomplete or inaccurate in any material respect or includes any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading; or
- c. The issuer, any officer, director or controlling person of the issuer, or person performing similar functions, or any underwriter has been convicted, by a competent judicial or administrative body, upon plea of guilty, or otherwise, of an offense involving moral turpitude and/or fraud or is enjoined or restrained by the Commission or other competent judicial or administrative body for violations of securities, commodities, and other related laws.

....

13.4. If the Commission deems it necessary, it may issue an order suspending the offer and sale of the securities pending any investigation. The order shall state the grounds for taking such action, but such order of suspension although binding upon the persons notified thereof, shall be deemed confidential, and shall not be published. Upon the issuance of the suspension order, no further offer or sale of such security shall be made until the same is lifted or set aside by the Commission. Otherwise, such sale shall be void.

....

SEC. 15. *Suspension of Registration.* – 15.1. If, at any time, the information contained in the registration statement filed is or has become misleading, incorrect, inadequate or incomplete in any material respect, or the sale or offering for sale of the security

registered thereunder may work or tend to work a fraud, the Commission may require from the issuer such further information as may in its judgment be necessary to enable the Commission to ascertain whether the registration of such security should be revoked on any ground specified in this Code. The Commission may also suspend the right to sell and offer for sale such security pending further investigation, by entering an order specifying the grounds for such action, and by notifying the issuer, underwriter, dealer or broker known as participating in such offering.⁸⁰

To ensure compliance with the law and the rules, the Securities and Exchange Commission is also given the power to impose fines and penalties. It may also investigate *motu proprio* whether corporations comply with the Corporation Code, Securities Regulation Code, and rules implemented by the Securities and Exchange Commission.

SEC. 5. *Powers and Functions of the Commission.* – 5.1. The Commission shall act with transparency and shall have the powers and functions provided by this Code, Presidential Decree No. 902-A, the Corporation Code, the Investment Houses Law, the Financing Company Act and other existing laws. Pursuant thereto the Commission shall have, among others, the following powers and functions:

....

- d. Regulate, investigate or supervise the activities of persons to ensure compliance;

....

- f. Impose sanctions for the violation of laws and the rules, regulations and orders issued pursuant thereto;

....

- i. Issue cease and desist orders to prevent fraud or injury to the investing public;

....

- m. Suspend, or revoke, after proper notice and hearing the franchise or certificate of registration of corporations, partnerships or associations, upon any of the grounds provided by law; and

- n. Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to the carrying out of, the express powers granted the Commission to achieve the objectives and purposes of these laws.⁸¹

⁸⁰ Rep. Act No. 8799 (2000).

⁸¹ Rep. Act No. 8799 (2000).

The Securities and Exchange Commission's approval of securities registrations signals to the public that the securities are valid. It provides the public with basis for relying on the representations of corporations that issue securities or financial instruments.

Any fraud or misrepresentation in the issuance of securities injures the public. The Securities and Exchange Commission's power to suspend or revoke registrations and to impose fines and other penalties provides the public with a certain level of assurance that the securities contain representations that are true, and that misrepresentations if later found, would be detrimental to the erring corporation. It creates risks to corporations that issue securities and adds cost to errors, misrepresentations, and violations related to the issuance of those securities. This protects the public who will rely on representations of corporations and partnerships regarding financial instruments that they issue. The Securities and Exchange Commission's regulatory power over securities-related activities is tied to the government's duty to protect the investing public from illegal and fraudulent instruments.

Thus, when Villareal and Filart alleged in their letter-complaint that SBGCCI and UIGDC committed misrepresentations in the sale of their shares, nothing prevented the Securities and Exchange Commission from taking cognizance of it to determine if SBGCCI and UIGDC committed administrative violations and were liable under the Securities Regulation Code. The Securities and Exchange Commission may investigate activities of corporations under its jurisdiction to ensure compliance with the law.

However, the Securities and Exchange Commission's regulatory power does not include the authority to order the refund of the purchase price of Villareal's and Filart's shares in the golf club. The issue of refund is intra-corporate or civil in nature. Similar to issues such as the existence or inexistence of appraisal rights, pre-emptive rights, and the right to inspect books and corporate records, the issue of refund is an intra-corporate dispute that requires the court to determine and adjudicate the parties' rights based on law or contract. Injuries, rights, and obligations involved in intra-corporate disputes are specific to the parties involved. They do not affect the Securities and Exchange Commission or the public directly.

The Securities and Exchange Commission argues that the power to order a refund is in accordance with the implementing rules of the Securities Regulation Code. Despite orders from the Securities and Exchange Commission to amend their prospectus, SBGCCI and UIGDC failed to comply. Thus, Villareal and Filart were entitled to the refund of the purchase price of their shares. They cite Section 14 of the Implementing Rules and Regulations of the Securities Regulation Code:

SRC Rule 14 – Amendments to the Registration Statement

1. *If a prospectus filed with the Commission under the Code becomes incomplete or inaccurate* in any material respect or if the issuer wants to change any material information therein, the issuer shall:
 - a. *file an amendment* to the registration statement with the Commission explaining all proposed changes which shall be reviewed by the Commission in accordance with Section 14 of the Code;
 -
 - c. where material amendments have been made to the prospectus after the effective date thereof, *purchasers may, within thirty (30) days from the date of such notification, renounce their purchase of securities*, whereupon the issuer, or any person acting on behalf of the issuer in connection with the distribution of said securities, shall, within ten (10) days from receipt of notification of such election, return the contributions paid by such purchasers without making any deductions. Purchasers who decide not to renounce their purchase of securities shall be subject to the terms of the amended offering. (Emphasis supplied)

Based on these provisions, Villareal and Filart may be entitled to a refund of the purchase price of their shares. Provisions giving shareholders rights, however, are not to be interpreted as sources of authority or jurisdiction when there is none. The provisions in the law or in the rules giving Villareal and Filart the right to be refunded the value of their shares are not equivalent to authority for the Securities and Exchange Commission to issue an order for the refund. Such order may not come from the Securities and Exchange Commission.

Neither the provisions of the implementing rules nor the provisions of the Securities Regulation Code,⁸² the law being implemented, give the

⁸² See also Rep. Act No. 8799 (2000), sec. 14:

SEC. 14. *Amendments to the Registration Statement.* – 14.1. If a registration statement is on its face incomplete or inaccurate in any material respect, the Commission shall issue an order directing the amendment of the registration statement. Upon compliance with such order, the amended registration statement shall become effective in accordance with the procedure mentioned in Subsection 12.6 hereof.

14.2. An amendment filed prior to the effective date of the registration statement shall recommence the forty-five (45) day period within which the Commission shall act on a registration statement. An amendment filed after the effective date of the registration statement shall become effective only upon such date as determined by the Commission.

14.3. If any change occurs in the facts set forth in a registration statement, the issuer shall file an amendment thereto setting forth the change.

14.4. If, at any time, the Commission finds that a registration statement contains any false statement or omits to state any fact required to be stated therein or necessary to make the statements therein not misleading, the Commission may conduct an examination, and, after due notice and hearing, issue an Order suspending the effectivity of the registration statement. If the statement is duly amended, the suspension order may be lifted.

14.5. In making such examination the Commission or any officer or officers designated by it may administer oaths and affirmations and shall have access to, and may demand the production of, any

Securities and Exchange Commission the power to order a refund. The Securities and Exchange Commission's power when violations of the Securities Regulation Code are found is limited to issuing regulatory orders such as suspending or revoking registration statements, providing for the terms and conditions for registration, and imposing fines and penalties.

The implementing rules cannot be interpreted to give the Securities and Exchange Commission the power that is more than what is provided under the Securities Regulation Code. Implementing rules are limited by the laws they implement. The rules cannot be used to amend, expand, or modify the law being implemented. The law shall prevail in case of inconsistency between the law and the rules.

In United BF Homeowner's Association v. BF Homes, Inc.:⁸³

As early as 1970, in the case of *Teoxon vs. Members of the Board of Administrators (PVA)*, we ruled that the power to promulgate rules in the implementation of a statute is necessarily limited to what is provided for in the legislative enactment. Its terms must be followed for an administrative agency cannot amend an Act of Congress. "The rule-making power must be confined to details for regulating the mode or proceedings to carry into effect the law as it has been enacted, and it cannot be extended to amend or expand the statutory requirements or to embrace matters not covered by the statute." If a discrepancy occurs between the basic law and an implementing rule or regulation, it is the former that prevails.

....

. . . The rule-making power of a public administrative body is a delegated legislative power, which it may not use either to abridge the authority given it by Congress or the Constitution or to enlarge its power beyond the scope intended. Constitutional and statutory provisions control what rules and regulations may be promulgated by such a body, as well as with respect to what fields are subject to regulation by it. It may not make rules and regulations which are inconsistent with the provisions of the Constitution or a statute, particularly the statute it is administering or which created it, or which are in derogation of, or defeat, the purpose of a statute.

Moreover, where the legislature has delegated to an executive or administrative officers and boards authority to promulgate rules to carry out an express legislative purpose, the rules of administrative officers and boards, which have the effect of extending, or which conflict with the authority-granting statute, do not represent a valid exercise of the rule-making power but constitute an attempt by an administrative body to legislate. "A statutory grant of powers should not be extended by implication beyond what may be necessary for their just and reasonable

books, records or documents relevant to the examination. Failure of the issuer, underwriter, or any other person to cooperate, or his obstruction or refusal to undergo an examination, shall be a ground for the issuance of a suspension order.

⁸³ 369 Phil. 568 (1999) [Per J. Pardo, First Division].

execution.” It is axiomatic that a rule or regulation must bear upon, and be consistent with, the provisions of the enabling statute if such rule or regulation is to be valid.⁸⁴ (Citations omitted)

Hence, the issue of refund should be litigated in the appropriate Regional Trial Court. This issue is both intra-corporate and civil in nature, which is under the jurisdiction of the designated Regional Trial Courts.

WHEREFORE, the Court of Appeals Decision dated July 31, 2007 is **AFFIRMED**.

SO ORDERED.



MARVIC M.V.F. LEONEN
Associate Justice

WE CONCUR:



ANTONIO T. CARPIO
Associate Justice
Chairperson



ARTURO D. BRION
Associate Justice



MARIANO C. DEL CASTILLO
Associate Justice



JOSE PORTUGAL PEREZ
Associate Justice

⁸⁴ Id. at 579–580.

ATTESTATION


I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice