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prosecution of a party's case.[2] Here Atty. Manzala had every right to expect that notices intended for him would be delivered directly to him and not be lumped together with all the other mail of the PNB and thus avoid the possibility that important court notices and processes might escape his notice. We have time and again admonished attorneys to adopt a system to insure the delivery to them of court processes. We would be allowing a disregard of this admonition were we to sanction the delivery of mail to attorneys at an address other than that given by them.

**WHEREFORE**, the decision of the Court of Appeals is REVERSED and the Regional Trial Court of Quezon City (Branch 94) is ORDERED to give due course to petitioner NIDC-PNB's appeal.

**SO ORDERED.**

*Regalado (Chairman), Romero, Puno,* and *Torres, Jr., JJ.,* concur.

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**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.*

**SYLLABUS**

1. **COMMERCIAL LAW; P.D. 902-A; JURISDICTION OF THE SECURITIES AND EXCHANGE COMMISSION; CASE AT BAR; INTRA-CORPORATE CONTROVERSY BETWEEN A CORPORATION AND ITS STOCKHOLDER.—** 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

[2] Philippine Long Distance Telephone Co. *v.* NLRC, 128 SCRA 402 (1984).

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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 directly and has in fact, in its letter of 27 September 1974, expressly recognized the pledge agreement executed by the original owner, Calapatia, in favor of petitioner and has even noted said agreement in its corporate books. In addition, Calapatia, the original owner of the subject share, has not contested the said transfer. By virtue of the afore-mentioned sale, petitioner became a *bona fide* stockholder of VGCCI and, therefore, the conflict that arose between petitioner and VGCCI aptly exemplies an intra-corporate controversy between a corporation and its stockholder under Sec. 5(b) of P.D. 902-A.

2. **ID.; ID.; ID.; THE SECURITIES AND EXCHANGE COMMISSION TOOK PROPER COGNIZANCE OF THE INSTANT CASE.**— An important consideration, moreover, is the nature of the controversy between petitioner and private respondent corporation. VGCCI claims a prior right over the subject share anchored mainly on Sec. 3, Art VIII of its by-laws which provides that "after a member shall have been posted as delinquent, the Board may order his/her/its share sold to satisfy the claims of the Club x x x." It is pursuant to this provision that VGCCI also sold the subject share at public auction, of which it was the highest bidder. VGCCI caps its argument by asserting that its corporate by-laws should prevail. The bone of contention, thus, is the proper interpretation and application of VGCCI's aforequoted by-laws, a subject which irrefutably calls for the special competence of the SEC. We reiterate herein the sound policy enunciated by the Court in Abejo *v.* De la Cruz: 6. In the fifties, the Court taking cognizance of the move to vest jurisdiction in administrative commissions and boards the power to resolve specialized disputes in the field of labor (as in corporations, public transportation and public utilities) ruled that Congress in requiring the Industrial Court's intervention in the resolution of labor-management controversies likely to cause strikes or lockouts meant such jurisdiction to be exclusive, although it did not so expressly state in the law. The Court held that under the "sense-making and expeditious doctrine of primary jurisdiction . . . the courts cannot or will not determine a controversy involving a question which is within the jurisdiction of an administrative tribunal, where the question demands the exercise of sound administrative discretion requiring the *special knowledge, experience, and*

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*services of the administrative tribunal to determine technical and intricate matters of fact, and a uniformity of ruling is essential to comply with the purposes of the regulatory statute administered."* In this era of clogged court dockets, the need for specialized administrative boards or commissions with the special knowledge, experience and capability to hear and determine promptly disputes on technical matters or essentially factual matters, subject to judicial review in case of grave abuse of discretion, has become well nigh indispensable. Thus, in 1984, the Court noted that "between the power lodged in an administrative body and a court, the unmistakable trend has been to refer it to the former. 'Increasingly, this Court has been committed to the view that unless the law speaks clearly and unequivocably, the choice should fall on [an administrative agency.]'" The Court in the earlier case of Ebon *v.* De Guzman, noted that the lawmaking authority, in restoring to the labor arbiters and the NLRC their jurisdiction to award all kinds of damages in labor cases, as against the previous P.D. amendment splitting their jurisdiction with the regular courts, "evidently, . . . had second thoughts about depriving the Labor Arbiters and the NLRC of the jurisdiction to award damages in labor cases because that setup would mean duplicity of suits, splitting the cause of action and possible conflicting findings and conclusions by two tribunals on one and the same claim." In this case, the need for the SEC's technical expertise cannot be over-emphasized involving as it does the meticulous analysis and correct interpretation of a corporation's by-laws as well as the applicable provisions of the Corporation Code in order to determine the validity of VGCCI's claims. The SEC, therefore, took proper cognizance of the instant case.

3. **ID.; ID.; ID.; THE FILING OF A COMPLAINT WITH ONE COURT WHICH HAS NO JURISDICTION OVER IT DOES NOT PREVENT THE PLAINTIFF FROM FILING THE SAME COMPLAINT LATER WITH THE COMPETENT COURT.**— VGCCI further contends that petitioner is estopped from denying its earlier position, in the first complaint it filed with the RTC of Makati (Civil Case No. 90-1112) that there is no intra-corporate relations between itself and VGCCI. VGCCI's contention lacks merit. In Zamora *v.* Court of Appeals, this Court, through Mr. Justice Isagani A. Cruz, declared that: "It follows that as a rule the filing of a complaint with one court which has no jurisdiction over it does not prevent the plaintiff from filing the same complaint later with the competent court. The plaintiff is not estopped

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from doing so simply because it made a mistake before in the choice of the proper forum . . ." We remind VGCCI that in the same proceedings before the RTC of Makati, it categorically stated (in its motion to dismiss) that the case between itself and petitioner is intra-corporate and insisted that it is the SEC and not the regular courts which has jurisdiction. This is precisely the reason why the said court dismissed petitioner's complaint and led to petitioner's recourse to the SEC.

4. **ID.; CORPORATION CODE; BY-LAWS; THIRD PERSONS ARE NOT BOUND BY THE BY-LAWS OF A CORPORATION SINCE THEY ARE NOT PRIVY THERETO.**— In order to be bound, the third party must have acquired knowledge of the pertinent by-laws at the time the transaction or agreement between said third party and the shareholder was entered into, in this case, at the time the pledge agreement was executed. VGCCI could have easily informed petitioner of its by-laws when it sent notice formally recognizing petitioner as pledgee of one of its shares registered in Calapatia's name. Petitioner's belated notice of said by-laws at the time of foreclosure will not suffice.

5. **ID.; ID.; SECTION 63 THEREOF; THE TERM "UNPAID CLAIM" REFERS TO ANY UNPAID CLAIM ARISING FROM UNPAID SUBSCRIPTION, AND NOT TO ANY INDEBTEDNESS WHICH A SUBSCRIBER OR STOCKHOLDER MAY OWE THE CORPORATION FROM ANY OTHER TRANSACTION.**— Sec. 63 of the Corporation Code which provides that "no shares of stock against which the corporation holds any unpaid claim shall be transferable in the books of the corporation" cannot be utilized by VGCCI. The term "unpaid claim" refers to "any unpaid claim arising from unpaid subscription, and not to any indebtedness which a subscriber or stockholder may owe the corporation arising from any other transaction." In the case at bar, the subscription for the share in question has been fully paid as evidenced by the issuance of Membership Certificate No. 1219. What Calapatia owed the corporation were merely the monthly dues. Hence, the aforequoted provision does not apply.

6. **CIVIL LAW; SPECIAL CONTRACTS; PLEDGE; RULE THAT THE CREDITOR MUST TAKE CARE OF THE THING PLEDGED WITH THE DILIGENCE OF A GOOD FATHER OF A FAMILY; DOES NOT APPLY TO A PLEDGEE OF A SHARE OF STOCK.**— VGCCI's contention

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that petitioner is duty-bound to know its by-laws because of Art. 2099 of the Civil Code which stipulates that the creditor must take care of the thing pledged with the diligence of a good father of a family, fails to convince. The case of *Cruz & Serrano v. Chua A. H. Lee,* is clearly not applicable: "In applying this provision to the situation before us it must be borne in mind that the ordinary pawn ticket is a document by virtue of which the property in the thing pledged passes from hand to hand by mere delivery of the ticket; and the contract of the pledge is, therefore, absolvable to bearer. It results that one who takes a pawn ticket in pledge acquires domination over the pledge; and it is the holder who must renew the pledge, if it is to be kept alive. It is quite obvious from the aforequoted case that a membership share is quite different in character from a pawn ticket and to reiterate, petitioner was never informed of Calapatia' s unpaid accounts and the restrictive provisions in VGCCI's by-laws.

APPEARANCES OF COUNSEL

*Lim Vigilia Cinco & Orencia* for petitioner.
*Jose F. Manacop* for private respondent.

DECISION

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

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Certificate No. 1219 to petitioner China Banking Corporation (CBC, for brevity).[1]

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

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.[3]

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.[4]

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.[5]

On 14 May 1985, petitioner informed VGCCI of the abovementioned 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.[6]

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.[7]

On 21 November 1985, VGCCI sent Calapatia a notice demanding full payment of his overdue account in the amount of P18,783.24.[8] Said notice was followed by a demand letter

[1] Original Records, pp. 34-35.

[2] *Id.*, at 36.

[3] *Id.*, at 37.

[4] *Id.*, at 38.

[5] *Id.*, at 39-40.

[6] *Id.*, at 41-42.

[7] *Id.*, at 43-44.

[8] *Id.*, at 45.

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dated 12 December 1985 for the same amount[9] and another notice dated 22 November 1986 for P23,483.24.[10]

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.[11]

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.[12]

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.[13]

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.[14]

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

[9] *Id.*, at 46.

[10] *Id.*, at 47.

[11] *Id.*, at 49.

[12] *Id.*, at 50.

[13] *Id.*, at 51.

[14] *Id.*, at 52-54.

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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."[15] Consequently, the case was dismissed.[16]

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

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.[18]

VGCCI sought reconsideration of the abovecited order. However, the SEC denied the same in its resolution dated 7 December 1993.[19]

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

[15] *Rollo*, p. 48.

[16] *Id.*, at 51.

[17] *Id.*, at 52.

[18] *Id.*, at 38.

[19] *Id.*, at 43.

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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.[20]

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

[20] *Id.*, at 28-29.

[21] *Id.*, at 31.

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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.

x x x x x x x x x

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:

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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*[22] and in the recent cases of *Mainland Construction Co., Inc. v. Movilla*[23] and *Bernardo v. CA*,[24] 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.

[22] 191 SCRA 308 (1990).

[23] 250 SCRA 290 (1995).

[24] G.R. No. 120730, 28 October 1996.

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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 directly and has in fact, in its letter of 27 September 1974, expressly recognized the pledge agreement executed by the original owner, Calapatia, in favor of petitioner and has even noted said agreement in its corporate books.[25] In addition, Calapatia, the original owner of the subject share, has not contested the said transfer.

By virtue of the aforementioned sale, petitioner became a *bona fide* stockholder of VGCCI and, therefore, the conflict that arose between petitioner and VGCCI aptly exemplies an intra-corporate controversy between a corporation and its stockholder under Sec. 5(b) of P.D. 902-A.

An important consideration, moreover, is the nature of the controversy between petitioner and private respondent corporation. VGCCI claims a prior right over the subject share anchored mainly on Sec. 3, Art VIII of its by-laws which provides that "after a member shall have been posted as delinquent, the Board may order his/her/its share sold to satisfy the claims of the Club . . ."[26] It is pursuant to this provision that VGCCI also sold the subject share at public auction, of which it was the highest bidder. VGCCI caps its argument by asserting that its corporate by-laws should prevail. The bone of contention, thus, is the proper interpretation and application of VGCCI's aforequoted by-laws, a subject which irrefutably calls for the special competence of the SEC.

We reiterate herein the sound policy enunciated by the Court in *Abejo v. De la Cruz*[27]:

> 6. In the fifties, the Court taking cognizance of the move to vest jurisdiction in administrative commissions and boards the power to resolve specialized disputes in the field of labor (as in corporations, public transportation and public utilities) ruled that Congress in

[25] *Rollo*, p. 88.

[26] *Id.*, at 34.

[27] 149 SCRA 654 (1987).

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requiring the Industrial Court's intervention in the resolution of labor-management controversies likely to cause strikes or lockouts meant such jurisdiction to be exclusive, although it did not so expressly state in the law. The Court held that under the "sense-making and expeditious doctrine of primary jurisdiction . . . the courts cannot or will not determine a controversy involving a question which is within the jurisdiction of an administrative tribunal, where the question demands the exercise of sound administrative discretion requiring *the special knowledge, experience, and services of the administrative tribunal to determine technical and intricate matters of fact, and a uniformity of ruling is essential to comply with the purposes of the regulatory statute administered.*"

In this era of clogged court dockets, the need for specialized administrative boards or commissions with the special knowledge, experience and capability to hear and determine promptly disputes on technical matters or essentially factual matters, subject to judicial review in case of grave abuse of discretion, has become well nigh indispensable. Thus, in 1984, the Court noted that "between the power lodged in an administrative body and a court, the unmistakable trend has been to refer it to the former. `Increasingly, this Court has been committed to the view that unless the law speaks clearly and unequivocably, the choice should fall on [an administrative agency.]'" The Court in the earlier case of *Ebon v. De Guzman*, noted that the lawmaking authority, in restoring to the labor arbiters and the NLRC their jurisdiction to award all kinds of damages in labor cases, as against the previous P.D. amendment splitting their jurisdiction with the regular courts, "evidently,. . . had second thoughts about depriving the Labor Arbiters and the NLRC of the jurisdiction to award damages in labor cases because that setup would mean duplicity of suits, splitting the cause of action and possible conflicting findings and conclusions by two tribunals on one and the same claim."

In this case, the need for the SEC's technical expertise cannot be over-emphasized involving as it does the meticulous analysis and correct interpretation of a corporation's by-laws as well as the applicable provisions of the Corporation Code in order to determine the validity of VGCCI's claims. The SEC, therefore, took proper cognizance of the instant case.

VGCCI further contends that petitioner is estopped from denying its earlier position, in the first complaint it filed with the RTC of Makati (Civil Case No. 90-1112) that there is no intra-corporate relations between itself and VGCCI.

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VGCCI's contention lacks merit.

In *Zamora v. Court of Appeals*,[28] this Court, through Mr. Justice Isagani A. Cruz, declared that:

> It follows that as a rule the filing of a complaint with one court which has no jurisdiction over it does not prevent the plaintiff from filing the same complaint later with the competent court. The plaintiff is not estopped from doing so simply because it made a mistake before in the choice of the proper forum. . . .

We remind VGCCI that in the same proceedings before the RTC of Makati, it categorically stated (in its motion to dismiss) that the case between itself and petitioner is intra-corporate and insisted that it is the SEC and not the regular courts which has jurisdiction. This is precisely the reason why the said court dismissed petitioner's complaint and led to petitioner's recourse to the SEC.

Having resolved the issue on jurisdiction, instead of remanding the whole case to the Court of Appeals, this Court likewise deems it procedurally sound to proceed and rule on its merits in the same proceedings.

It must be underscored that petitioner did not confine the instant petition for review on *certiorari* on the issue of jurisdiction. In its assignment of errors, petitioner specifically raised questions on the merits of the case. In turn, in its responsive pleadings, private respondent duly answered and countered all the issues raised by petitioner.

Applicable to this case is the principle succinctly enunciated in the case of *Heirs of Crisanta Y. Gabriel-Almoradie v. Court of Appeals*,[29] citing *Escudero v. Dulay*[30] and *The Roman Catholic Archbishop of Manila v. Court of Appeals*:[31]

> In the interest of the public and for the expeditious administration of justice the issue on infringement shall be resolved by the court considering that this case has dragged on for years and has gone from one forum to another.

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[28] 183 SCRA 279 (1990).

[29] 229 SCRA 15 (1994).

[30] 158 SCRA 69 (1988).

[31] 198 SCRA 300 (1991).

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It is a rule of procedure for the Supreme Court to strive to settle the entire controversy in a single proceeding leaving no root or branch to bear the seeds of future litigation. No useful purpose will be served if a case or the determination of an issue in a case is remanded to the trial court only to have its decision raised again to the Court of Appeals and from there to the Supreme Court.

We have laid down the rule that the remand of the case or of an issue to the lower court for further reception of evidence is not necessary where the Court is in position to resolve the dispute based on the records before it and particularly where the ends of justice would not be subserved by the remand thereof. Moreover, the Supreme Court is clothed with ample authority to review matters, even those not raised on appeal if it finds that their consideration is necessary in arriving at a just disposition of the case.

In the recent case of *China Banking Corp., et al. v. Court of Appeals, et al.*,[32] this Court, through Mr. Justice Ricardo J. Francisco, ruled in this wise:

At the outset, the Court's attention is drawn to the fact that that since the filing of this suit before the trial court, none of the substantial issues have been resolved. To avoid and gloss over the issues raised by the parties, as what the trial court and respondent Court of Appeals did, would unduly prolong this litigation involving a rather simple case of foreclosure of mortgage. Undoubtedly, this will run counter to the avowed purpose of the rules, i.e., to assist the parties in obtaining just, speedy and inexpensive determination of every action or proceeding. The Court, therefore, feels that the central issues of the case, albeit unresolved by the courts below, should now be settled specially as they involved pure questions of law. Furthermore, the pleadings of the respective parties on file have amply ventilated their various positions and arguments on the matter necessitating prompt adjudication.

In the case at bar, since we already have the records of the case (from the proceedings before the SEC) sufficient to enable us to render a sound judgment and since only questions of law were raised (the proper jurisdiction for Supreme Court review), we can, therefore, unerringly take cognizance of and rule on the merits of the case.

The procedural niceties settled, we proceed to the merits.

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[32] G.R. No. 121158, 5 December 1996.

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VGCCI assails the validity of the pledge agreement executed by Calapatia in petitioner's favor. It contends that the same was null and void for lack of consideration because the pledge agreement was entered into on 21 August 1974[33] but the loan or promissory note which it secured was obtained by Calapatia much later or only on 3 August 1983.[34]

VGCCI's contention is unmeritorious.

A careful perusal of the pledge agreement will readily reveal that the contracting parties explicitly stipulated therein that the said pledge will also stand as security for any future advancements (or renewals thereof) that Calapatia (the pledgor) may procure from petitioner:

x x x x x x x x x.

This pledge is given as security for the prompt payment when due of all loans, overdrafts, promissory notes, drafts, bills or exchange, discounts, and all other obligations of every kind which have heretofore been contracted, *or which may hereafter be contracted*, by the PLEDGOR(S) and/or DEBTOR(S) or any one of them, in favor of the PLEDGEE, including discounts of Chinese drafts, bills of exchange, promissory notes, etc., without any further endorsement by the PLEDGOR(S) and/or Debtor(s) up to the sum of TWENTY THOUSAND (P20,000.00) PESOS, together with the accrued interest thereon, as hereinafter provided, plus the costs, losses, damages and expenses (including attorney's fees) which PLEDGEE may incur in connection with the collection thereof.[35] (Italics ours.)

The validity of the pledge agreement between petitioner and Calapatia cannot thus be held suspect by VGCCI. As candidly

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[33] *Rollo*, pp. 84-85.

[34] *Id.*, at 89.

[35] *Rollo*, p. 84; For an analogous case see *Ajax Marketing and Development Corporation v. CA*, 248 SCRA 222 (1995) where it was held that:

> An action to foreclose a mortgage is usually limited to the amount mentioned in the mortgage, but where on the four corners of the mortgage contracts, as in this case, the intent of the contracting parties is manifest that the mortgaged property shall also answer for future loans or advancements then the same is not improper as it is valid and binding between the parties x x x

See also *Mojica v. CA*, 201 SCRA 517 (1991).

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explained by petitioner, the promissory note of 3 August 1983 in the amount of P20,000.00 was but a renewal of the first promissory note covered by the same pledge agreement.

VGCCI likewise insists that due to Calapatia's failure to settle his delinquent accounts, it had the right to sell the share in question in accordance with the express provision found in its by-laws.

Private respondent's insistence comes to naught. It is significant to note that VGCCI began sending notices of delinquency to Calapatia *after* it was informed by petitioner (through its letter dated 14 May 1985) of the foreclosure proceedings initiated against Calapatia's pledged share, although Calapatia has been delinquent in paying his monthly dues to the club since 1975. Stranger still, petitioner, whom VGCCI had officially recognized as the pledgee of Calapatia's share, was neither informed nor furnished copies of these letters of overdue accounts until VGCCI itself sold the pledged share at another public auction. By doing so, VGCCI completely disregarded petitioner's rights as pledgee. It even failed to give petitioner notice of said auction sale. Such actuations of VGCCI thus belie its claim of good faith.

In defending its actions, VGCCI likewise maintains that petitioner is bound by its by-laws. It argues in this wise:

> The general rule really is that third persons are not bound by the by-laws of a corporation since they are not privy thereto (Fleischer *v.* Botica Nolasco, 47 Phil. 584). The exception to this is when third persons have actual or constructive knowledge of the same. In the case at bar, petitioner had actual knowledge of the by-laws of private respondent when petitioner foreclosed the pledge made by Calapatia and when petitioner purchased the share foreclosed on September 17, 1985. This is proven by the fact that prior thereto, i.e., on May 14, 1985 petitioner even quoted a portion of private respondent's by-laws which is material to the issue herein in a letter it wrote to private respondent. Because of this actual knowledge of such by-laws then the same bound the petitioner as of the time when petitioner purchased the share. Since the by-laws was already binding upon petitioner when the latter purchased the share of Calapatia on September 17, 1985 then the petitioner purchased the said share subject to the right of the private respondent to sell the said share for reasons of delinquency and the right of private

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respondent to have a first lien on said shares as these rights are provided for in the by-laws very very clearly.[36]

VGCCI misunderstood the import of our ruling in *Fleischer v. Botica Nolasco Co.*:[37]

"*And moreover, the by-law now in question cannot have any effect on the appellee. He had no knowledge of such by-law when the shares were assigned to him.* He obtained them in good faith and for a valuable consideration. He was not a privy to the contract created by said by-law between the shareholder Manuel Gonzales and the Botica Nolasco, Inc. Said by-law cannot operate to defeat his rights as a purchaser.

"An unauthorized by-law forbidding a shareholder to sell his shares without first offering them to the corporation for a period of thirty days is not binding upon an assignee of the stock as a personal contract, although his assignor knew of the by-law and took part in its adoption." (10 Cyc., 579; Ireland *vs.* Globe Milling Co., 21 R.I., 9.)

"When no restriction is placed by public law on the transfer of corporate stock, a purchaser is not affected by any contractual restriction of which he had no notice." (Brinkerhoff-Farris Trust & Savings Co. *vs.* Home Lumber Co., 118 Mo., 447.)

"The assignment of shares of stock in a corporation by one who has assented to an unauthorized by-law has only the effect of a contract by, and enforceable against, the assignor; the assignee is not bound by such by-law by virtue of the assignment alone." (Ireland *vs.* Globe Milling Co., 21 R.I., 9.)

"A by-law of a corporation which provides that transfers of stock shall not be valid unless approved by the board of directors, while it may be enforced as a reasonable regulation for the protection of the corporation against worthless stockholders, cannot be made available to defeat the rights of third persons." (Farmers' and Merchants' Bank of Lineville *vs.* Wasson, 48 Iowa, 336.) (Italics ours.)

In order to be bound, the third party must have acquired knowledge of the pertinent by-laws at the time the transaction or agreement between said third party and the shareholder was entered into, in this case, at the time the pledge agreement was executed. VGCCI could have easily informed petitioner

[36] *Rollo*, pp. 162-163.

[37] 47 Phil. 583 (1925).

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of its by-laws when it sent notice formally recognizing petitioner as pledgee of one of its shares registered in Calapatia's name. Petitioner's belated notice of said by-laws at the time of foreclosure will not suffice. The ruling of the SEC *en banc* is particularly instructive:

> By-laws signifies the rules and regulations or private laws enacted by the corporation to regulate, govern and control its own actions, affairs and concerns and its stockholders or members and directors and officers with relation thereto and among themselves in their relation to it. In other words, by-laws are the relatively permanent and continuing rules of action adopted by the corporation for its own government and that of the individuals composing it and having the direction, management and control of its affairs, in whole or in part, in the management and control of its affairs and activities. (9 Fletcher 4166, 1982 Ed.)
>
> The purpose of a by-law is to regulate the conduct and define the duties of the members towards the corporation and among themselves. They are self-imposed and, although adopted pursuant to statutory authority, have no status as public law. (*Ibid.*)
>
> Therefore, it is the generally accepted rule that third persons are not bound by by-laws, except when they have knowledge of the provisions either actually or constructively. In the case of Fleisher *v.* Botica Nolasco, 47 Phil. 584, the Supreme Court held that the by-law restricting the transfer of shares cannot have any effect on the the transferee of the shares in question as he "had no knowledge of such by-law when the shares were assigned to him. He obtained them in good faith and for a valuable consideration. *He was not a privy to the contract created by the by-law between the shareholder x x x and the Botica Nolasco, Inc.* Said by-law cannot operate to defeat his right as a purchaser." (Italics supplied.)
>
> By analogy of the abovecited case, the Commission *en banc* is of the opinion that said case is applicable to the present controversy. Appellant-petitioner bank as a third party can not be bound by appellee-respondent's by-laws. It must be recalled that when appellee-respondent communicated to appellant-petitioner bank that the pledge agreement was duly noted in the club's books there was no mention of the shareholder-pledgor's unpaid accounts. The transcript of stenographic notes of the June 25, 1991 Hearing reveals that the pledgor became delinquent only in 1975. Thus, appellant-petitioner was in good faith when the pledge agreement was contracted.
>
> The Commission *en banc* also believes that for the exception to the general accepted rule that third persons are not bound by by-

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laws to be applicable and binding upon the pledgee, knowledge of the provisions of the VGCCI By-laws must be acquired at the time the pledge agreement was contracted. Knowledge of said provisions, either actual or constructive, at the time of foreclosure will not affect pledgee's right over the pledged share. Art. 2087 of the Civil Code provides that it is also of the essence of these contracts that when the principal obligation becomes due, the things in which the pledge or mortgage consists maybe alienated for the payment to the creditor.

In a letter dated March 10, 1976 addressed to Valley Golf Club, Inc., the Commission issued an opinion to the effect that:

> According to the weight of authority, the pledgee's right is entitled to full protection without surrender of the certificate, their cancellation, and the issuance to him of new ones, and when done, the pledgee will be fully protected against a subsequent purchaser who would be charged with constructive notice that the certificate is covered by the pledge. (12-A Fletcher 502)
>
> The pledgee is entitled to retain possession of the stock until the pledgor pays or tenders to him the amount due on the debt secured. In other words, the pledgee has the right to resort to its collateral for the payment of the debts. (*Ibid.*, 502)
>
> To cancel the pledged certificate outright and the issuance of new certificate to a third person who purchased the same certificate covered by the pledge, will certainly defeat the right of the pledgee to resort to its collateral for the payment of the debt. The pledgor or his representative or registered stockholders has no right to require a return of the pledged stock until the debt for which it was given as security is paid and satisfied, regardless of the length of time which have elapsed since debt was created. (12-A Fletcher 409)

A *bona fide* pledgee takes free from any latent or secret equities or liens in favor either of the corporation or of third persons, if he has no notice thereof, but not otherwise. He also takes it free of liens or claims that may subsequently arise in favor of the corporation if it has notice of the pledge, although no demand for a transfer of the stock to the pledgee on the corporate books has been made. (12-A Fletcher 5634, 1982 ed., citing Snyder *v.* Eagle Fruit Co., 75 F2d739)[38]

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[38] *Rollo*, pp. 36-37.

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Similarly, VGCCI's contention that petitioner is duty-bound to know its by-laws because of Art. 2099 of the Civil Code which stipulates that the creditor must take care of the thing pledged with the diligence of a good father of a family, fails to convince. The case of *Cruz & Serrano v. Chua A. H. Lee*,[39] is clearly not applicable:

> In applying this provision to the situation before us it must be borne in mind that the ordinary pawn ticket is a document by virtue of which the property in the thing pledged passes from hand to hand by mere delivery of the ticket; and the contract of the pledge is, therefore, absolvable to bearer. It results that one who takes a pawn ticket in pledge acquires domination over the pledge; and it is the holder who must renew the pledge, if it is to be kept alive.

It is quite obvious from the aforequoted case that a membership share is quite different in character from a pawn ticket and to reiterate, petitioner was never informed of Calapatia's unpaid accounts and the restrictive provisions in VGCCI's by-laws.

Finally, Sec. 63 of the Corporation Code which provides that "no shares of stock against which the corporation holds any unpaid claim shall be transferable in the books of the corporation" cannot be utilized by VGCCI. The term "unpaid claim" refers to "any unpaid claim arising from unpaid subscription, and not to any indebtedness which a subscriber or stockholder may owe the corporation arising from any other transaction."[40] In the case at bar, the subscription for the share in question has been fully paid as evidenced by the issuance of Membership Certificate No. 1219.[41] What Calapatia owed the corporation were merely the monthly dues. Hence, the aforequoted provision does not apply.

**WHEREFORE**, premises considered, the assailed decision of the Court of Appeals is REVERSED and the order of the SEC *en banc* dated 4 June 1993 is hereby AFFIRMED.

**SO ORDERED.**

*Padilla (Chairman), Bellosillo, Vitug,* and *Hermosisima, Jr., JJ.,* concur.

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[39] 54 Phil. 10 (1929).

[40] Agpalo, Ruben E., Comments on the Corporation Code of the Philippines, First ed., 1993, p. 286; See also Lopez, Rosario N., The Corporation Code of the Philippines Annotated, Vol. II, 1994, p. 816.

[41] *Rollo*, p. 86.