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**SECOND DIVISION**

[G.R. Nos. 76828-32. January 28, 1991]

**SIXTO L. OROSA, JR., JOSE URANZA, GERVACIO E. FERIA, WILLIAM T. GUIDO and AZUCENA A. REYES,** *petitioners, vs.* **COURT OF APPEALS and MERCANTILE FINANCING CORPORATION,** *respondents.*

**SYLLABUS**

1. **MERCANTILE LAW; SECURITIES AND EXCHANGE COMMISSION; JURISDICTION; EXPLAINED.** — Plainly, the SEC is vested with absolute jurisdiction, supervision and control over all corporations which are enfranchised to act as corporate entities. The provision by no means restricts that jurisdiction to entities granted permits or licenses to operate by another Government regulatory body.

2. **ID.; CORPORATIONS; CERTIFICATE OF INCORPORATION; PURPOSE.** — It is the certificate of incorporation that gives juridical personality to a corporation and places it within SEC jurisdiction.

3. **ID.; ID.; WITHDRAWAL OF AUTHORITY TO OPERATE A SPECIALIZED ACTIVITY DOES NOT TERMINATE LEGAL PERSONALITY.** — It follows then that although authority to operate a certain specialized activity may be withdrawn by the appropriate regulatory body, aside from SEC, the corporation nonetheless continues to be vested with legal personality until it is dissolved in accordance with law.

4. **ID.; SECURITIES AND EXCHANGE COMMISSION; JURISDICTION; NOT AFFECTED BY REVOCATION BY THE CENTRAL BANK OF A CORPORATION'S LICENSE TO OPERATE AS A FINANCING COMPANY; CASE AT BAR.** — Considering that Petitioner's Complaints sufficiently allege acts amounting to fraud and misrepresentation committed by Respondent Corporation, the SEC must be held to retain its original and exclusive jurisdiction over these five (5) cases notwithstanding the revocation by the Central Bank of

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Respondent Corporation's license or permit to operate as a financing company and despite the fact that the suits involve collections of sums of money paid to said corporation, the recovery of which would ordinarily fall within the jurisdiction of regular Courts. The fraud committed is detrimental to the interest of the public and, therefore, encompasses a category of relationship within the SEC jurisdiction.

**5. REMEDIAL LAW; COURTS; JURISDICTION; CONFERRED BY LAW.** — The jurisdiction of a Court is conferred by the Constitution and by the laws in force at the time of the commencement of the action.

**6. ID.; COURTS; JURISDICTION OVER THE SUBJECT MATTER; DETERMINED BY ALLEGATIONS IN THE COMPLAINT.** — Whether or not a Court has jurisdiction over the subject matter of a case is determined from the allegations of the complaint.

**7. MERCANTILE LAW; SECURITIES AND EXCHANGE COMMISSION; EMPOWERED TO ENFORCE THE PROVISION OF THE FINANCING COMPANY ACT.** — The SEC has also been empowered to enforce the provisions of the Financing Company Act (Republic Act No. 5980).

**8. ID.; ID.; EMPOWERED TO APPOINT A REHABILITATION RECEIVER AND TO SUSPEND ALL PROCEEDINGS OR CLAIMS AGAINST A CORPORATION.** — Further bolstering the jurisdiction of the SEC in these cases is the fact that said agency had already appointed a Rehabilitation Receiver for Respondent Corporation and had directed that all proceedings or claims against it be suspended. This, pursuant to Sec. 6(c) of Pres. Decree No. 902-A providing that "upon appointment of a x x x rehabilitation receiver x x x all actions for claims against corporations x x x under receivership pending before any court, tribunal, board or body shall be suspended accordingly." By so doing, SEC had exercised its original and exclusive jurisdiction pursuant to Section 5 (d) of P.D. 902-A as amended.

**9. REMEDIAL LAW; SUPREME COURT; NOT BOUND BY THE FINDINGS OF THE COURT OF APPEALS.** — It may be that, as pointed out in Petitioners' Reply, the Fifteenth Division of the Court of Appeals had rendered a final Decision, promulgated

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on 31 March 1987, involving almost identical procedural and substantive issues as in these five (5) cases, wherein, contrary to the Decision of the Third Division under review, it upheld the jurisdiction of the Regional Trial Court on the theory that the actions involved "simple money claims the payment of which might be frustrated should they be allowed to wait for the termination of receivership proceedings" and "did not involve intra-corporate dispute." While ironically enough, two Divisions of the same Appellate Court arrived at different conclusions, the aforestated Decision of the Fifteenth Division can have no binding nor controlling effect on this Court, besides the fact that it never touched on the aspect of fraud.

**APPEARANCES OF COUNSEL**

*Poncevic M. Ceballos* for petitioners.

*Romero, Lagman, Valdecantos & Arreza Law Offices* for private respondent.

**D E C I S I O N**

**MELENCIO-HERRERA, *J.*:**

Commanding attention in this Petition for Review on *Certiorari* is the question of the proper forum that should take cognizance of these five (5) cases. Is it the Regional Trial Court or the Securities and Exchange Commission?

Shorn of the specific details in each individual transaction, the antecedents are briefly related hereunder.

Sometime prior to 18 August 1983, Sixto L. Orosa, Jr., Jose Uranza, Gervacio E. Feria, William T. Guido, and Azucena A. Reyes (hereinafter, Petitioners) made individual money market placements with private respondent, the Mercantile Financing Corporation (briefly, Respondent Corporation).

For failure of Respondent Corporation to pay Petitioners the full value of their placements upon their respective maturities notwithstanding checks/promissory notes and/or certificates of trust issued in their favor, Petitioners filed separate civil suits

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against Respondent Corporation for the recovery of sums of money and damages with prayers for preliminary attachment. The Complaints invariably contained allegations of fraud committed by Respondent Corporation by falsely representing itself to be in a financial position to pay its obligations on their respective maturity dates. In fact, the prayers for the issuance of Writs of Preliminary Attachment were based on the ground of fraud in incurring the obligations upon which the actions were brought. The Trial Court granted the Writs prayed for.

It appears that, although Respondent Corporation was duly registered with the Securities and Exchange Commission (SEC), its license to operate as an investment entity was revoked by the Central Bank on 18 August 1983 or before petitioners had made their money market placements.

Because Respondent Corporation failed to file its responsive pleadings it was declared in default in all five (5) cases. Subsequently, separate judgments by default were rendered by the Trial Court[1] ordering Respondent Corporation, among others, to pay Petitioners the various sums of money claimed by them.

On 1 August 1984, the Trial Court gave due course to Respondent Corporation's appeal and, upon Petitioners' Motion, issued Writs of Execution pending appeal.

On 4 September 1984, Respondent Corporation "inform(ed) the lower court that the law firm of Valdez, Asuncion, Gomez and Associates was appointed rehabilitation receiver for respondent corporation by the SEC pursuant to PD 902-A as amended, and directing that all proceedings or claims against it be suspended. Respondent Corporation then sought to set aside the order allowing execution pending appeal but this was denied for lack of merit. Consequently, Petitioners moved for authority to proceed with the auction sale, which was granted by the Trial Court despite opposition by Respondent Corporation. Accordingly, the latter's real properties covered by TCT Nos.

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[1] Penned by Judge Ernari Cruz Paño.

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302868 and 302869 were levied upon and sold at public auction. The Rehabilitation Receiver for Respondent Corporation endeavored to prevent eventual consolidation of title by filing a petition for preliminary injunction with respondent Court but the same was not acted on by the then Fourth Civil Cases Division of said Court.

On 29 September 1986, respondent Court of Appeals,[2] ruling that original and exclusive jurisdiction over the five (5) suits is actually vested in the SEC, rendered judgment:

"1. Declaring that the court *a quo* was bereft of jurisdiction over the subject and nature of the actions in Civil Cases Nos. *Q-41104*, *Q-41105*, *Q-41146*, *Q-41174* and *Q-41175*;

"2. Declaring that all proceedings in aforesaid five cases, particularly the Order of Default dated April 30, 1984, Judgments by default dated May 4 and 8, 1984, as null and void, and ordering that they be set aside, without prejudice to refiling aforesaid actions or claims before the Securities and Exchange Commission.

"No pronouncement as to costs."

At the very core of this Petition assailing the aforesaid pronouncements, and around which revolves the arguments of the parties, is the applicability of Pres. Decree No. 902-A (Reorganization of the Securities and Exchange Commission with Additional Powers), as amended by Pres. Decrees Nos. 1653, 1758 and 1799. Petitioners submit that the legal suits which they have brought against Respondent Corporation are ordinary actions for recovery of sums of money cognizable solely by the Regional Trial Court. Respondent Corporation, on the other hand, espouses the original and exclusive jurisdiction of the SEC.

Given the factual settings in the five (5) cases, we sustain the SEC jurisdiction.

Pres. Decree No. 902-A, Section 3, provides:

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[2] Third Division, composed of Justice Oscar R. Victoriano, *ponente*, with Justices Desiderio P. Jurado and Ricardo J. Francisco, concurring.

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"Sec. 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." (As amended by Pres. Decree No. 1758).

Plainly, the SEC is vested with absolute jurisdiction, supervision and control over all corporations which are enfranchised to act as corporate entities. The provision by no means restricts that jurisdiction to entities granted permits or licenses to operate by another Government regulatory body, as Petitioners contend. It is the certificate of incorporation that gives juridical personality to a corporation and places it within SEC jurisdiction. It follows then that although authority to operate a certain specialized activity may be withdrawn by the appropriate regulatory body, aside from SEC, the corporation nonetheless continues to be vested with legal personality until it is dissolved in accordance with law.

"A private corporation formed or organized under this Code commences to have corporate existence and juridical personality and is deemed incorporated from the date the Securities and Exchange Commission issues a certificate of incorporation under its official seal; and thereupon the incorporators, stockholders/members and their successors shall constitute a body politic and corporate under the name stated in the articles of incorporation for the period of time mentioned therein, unless said period is extended or the corporation is sooner dissolved in accordance with law." (Batas Pambansa Blg. 68 [Corporation Code], Section 19).

Section 3 of Pres. Decree No. 902-A should also be read in conjunction with Section 5 of the same law, providing:

"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

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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 public and/or of the stockholders, partners, members of associations or organizations registered with the Commission.'" (Italics ours).

Considering that Petitioners' Complaints sufficiently allege acts amounting to fraud and misrepresentation committed by Respondent Corporation, the SEC must be held to retain its original and exclusive jurisdiction over these five (5) cases notwithstanding the revocation by the Central Bank of Respondent Corporation's license or permit to operate as a financing company and despite the fact that the suits involve collections of sums of money paid to said corporation, the recovery of which would ordinarily fall within the jurisdiction of regular Courts. The fraud committed is detrimental to the interest of the public and, therefore, encompasses a category of relationship within the SEC jurisdiction.

> "Otherwise stated, in order that the SEC 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 & Container Corp. v. SEC*, No. 64013, 28 November 1983, 126 SCRA 31, 38; *Abejo v. De la Cruz*, No. 63558, 19 May 1987, 149 SCRA 654).

However, Petitioners' challenge to the SEC jurisdiction is also predicated on the argument that Section 5(a) of Pres. Decree No. 902-A is applicable only to matters affecting "investments" by the public in private corporations; that since Respondent Corporation's authority to engage in quasi-banking functions had already been withdrawn at the time Petitioners made their money placements, there was for all intents and purposes no "investments" ever made, such that the delivery of various

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amounts by Petitioners to Respondent Corporation and the corresponding obligation by the latter to return the same upon maturity was reduced to simple obligations for sums of money cognizable by the Regional Trial Court.

This is specious reasoning. It is axiomatic that the jurisdiction of a Court is conferred by the Constitution and by the laws in force at the time of the commencement of the action. However, whether or not a Court has jurisdiction over the subject matter of a case is determined from the allegations of the complaint (*Ganadin v. Ramos, et al.*, L-23547, 11 September 1980, 99 SCRA 613).

In these cases, the recitals of the Complaints sufficiently allege that devices or schemes amounting to fraud and misrepresentation detrimental to the interest of the public have been resorted to by Respondent Corporation. It can not but be conceded, therefore, that the SEC may exercise its adjudicative powers pursuant to Section 5(a) of Pres. Decree No. 902-A, *supra*.

The fact that the Central Bank had withdrawn Respondent Corporation's authority to engage in quasi-banking functions will not have the effect of divesting the SEC of its original and exclusive jurisdiction. The expanded jurisdiction of the SEC was conceived primarily to protect the interest of the investing public. That Petitioners' money placements were in the nature of investments in Respondent Corporation can not be gainsaid. Petitioners had reasonably expected to receive returns from moneys they had paid to the latter. Unfortunately, however, they were the victims of fraud and misrepresentation.

It is precisely to check machinations like this that the SEC has also been empowered to enforce the provisions of the Financing Company Act (Republic Act No. 5980) and violations thereof. In these cases, Petitioners contend that they had no inkling whatsoever that Respondent Corporation's permit to operate had been withdrawn by the Central Bank. Apparently, therefore, Respondent Corporation has violated a provision of said Act reading: "No person, association, partnership, or

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corporation shall hold itself out as doing business as a 'financing company' or 'finance and investment company' or any other title or name tending to give the public the impression that it is engaged in the operations and activities of a financing company, unless so authorized under this Act" (Sec. 7[c]). For violations such as this, it is the SEC that is fully authorized to revoke or suspend the registration of any financing company which has violated any provision of said Act (Sec. 9[b]).

In point is the case of *Rivilla v. Intermediate Appellate Court* (G.R. No. 78170, 31 July 1989, 175 SCRA 773), where this Court ruled that the controversy therein fell within the contemplation of Sec. 5(a) of Pres. Decree No. 902-A, as amended, and, therefore, within the original and exclusive jurisdiction of the SEC. The parallelism lies in the absence in that case of prior registration with the SEC of the promissory note involved. It was thus held:

"In his complaint, private respondent alleged that petitioners actually used the corporation as a shield to perpetrate or commit fraud x x x by issuing the promissory note in the name of the corporation without prior registration with the SEC as required by the Securities Act, and by falsely representing that it was registered with the SEC.

"Evidently, the present controversy is within the contemplation of Sec. 5(a) of PD No. 902-A, as amended. The issuance of the promissory note in the name of C.R. Agro Industrial Development Corporation by the petitioners, who are its officers and/or controlling stockholders, without registration of the note with the SEC, as required by Sec. 4 of the Revised Securities Act in order to protect the investing public, may be considered as a device or scheme amounting to fraud and misrepresentation, because by not registering the note with the SEC, the petitioners could later try to disclaim any liability under the said promissory note by claiming that the corporation has a separate and distinct personality from its officers and stockholders x x x." (at p. 779).

Reliance by Petitioners on the cases of *DMRC v. Este del Sol* (No. 57936, 28 September 1984, 132 SCRA 293), and *Bañez vs. Dimensional Construction Trade and Development*

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*Corp.* (No. 62648, 22 November 1985, 140 SCRA 249), where the jurisdiction of the ordinary Courts was upheld, is misplaced for, as explicitly stated in those cases, nowhere in the Complaints therein is found any averment of fraud or misrepresentation committed by the respective corporations involved. The causes of action, therefore, were nothing more than simple money claims.

Further bolstering the jurisdiction of the SEC in these cases is the fact that said agency had already appointed a Rehabilitation Receiver for Respondent Corporation and had directed that all proceedings or claims against it be suspended. This, pursuant to Sec. 6(c) of Pres. Decree No. 902-A providing that "upon appointment of a x x x rehabilitation receiver x x x all actions for claims against corporations x x x under receivership pending before any court, tribunal, board or body shall be suspended accordingly."

By so doing, SEC had exercised its original and exclusive jurisdiction to hear and decide cases involving:

"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 sufficient property to cover all 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 of a Rehabilitation Receiver or Management Committee created pursuant to this Decree" (Section 5(d) of Pres. Decree No. 902-A, as added by Pres. Decree 1758).

It may be that, as pointed out in Petitioners' Reply, the Fifteenth Division of the Court of Appeals[3] had rendered a final Decision, promulgated on 31 March 1987, involving almost identical procedural and substantive issues as in these five (5) cases, wherein, contrary to the Decision of the Third Division under review, it upheld the jurisdiction of the Regional Trial Court on the theory that the actions involved "simple money claims the payment of which might be frustrated should they be allowed

[3] Composed of Justice Segundino G. Chua, *ponente*. and concurred in by Justices Bienvenido C. Ejercito and Justo P. Torres, Jr.

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to wait for the termination of receivership proceedings" and "did not involve intra-corporate dispute." While ironically enough, two Divisions of the same Appellate Court arrived at different conclusions, the aforestated Decision of the Fifteenth Division can have no binding nor controlling effect on this Court, besides the fact that it never touched on the aspect of fraud.

In fine, the adjudicative powers of the SEC being clearly defined by law, its jurisdiction over these cases has to be upheld.

**WHEREFORE**, the judgments under review are hereby AFFIRMED, and the individual Complaints in the Court below DISMISSED, without prejudice to the re-filing of the same or the submission of Petitioners' claims with the Securities and Exchange Commission.

No pronouncement as to costs.

**SO ORDERED.**

*Paras, Padilla, Sarmiento,* and *Regalado, JJ.*, concur.

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**THIRD DIVISION**

[G.R. No. 78603. January 28, 1991]

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION,** *petitioner, vs.* **NATIONAL LABOR RELATIONS COMMISSION (SECOND DIVISION); PHILIPPINE OVERSEAS EMPLOYMENT ADMINISTRATION and RUBEN S. BUAN,** *respondents.*