

****Title:**** Fontana Resort and Country Club, Inc. and RN Development Corp. vs. Spouses Roy S. Tan and Susana C. Tan

****Facts:****

In March 1997, Spouses Roy S. Tan and Susana C. Tan (respondents) purchased two class “D” shares of stock in Fontana Resort and Country Club, Inc. (FRCCI) from RN Development Corporation (RNDC), both petitioners, for P387,300.00. This investment was driven by assertions from petitioners’ agents that the FRCCI would establish a fully-developed Fontana Leisure Park (FLP) in Clark Field, Pampanga by early 1998, and that these shares would grant them annual access to park facilities and accommodations.

Upon realizing that development was incomplete and reservations for the facilities were unexpectedly restricted, the Tans filed a complaint with the Securities and Exchange Commission (SEC) in March 1999, seeking a refund on grounds of fraudulent misrepresentation. The SEC, through its Securities Investigation and Clearing Department (SICD), conducted hearings after which Hearing Officer Bacalla deemed that petitioners defaulted due to non-appearance and found in favor of the Tans, a decision affirmed by the SEC En Banc.

Petitioners then appealed to the Court of Appeals, which modified the SEC’s decision by partly agreeing with the petitioners but still ordered a refund based on contract rescission principles, applying a 12% interest rate from the time of extrajudicial demand.

****Issues:****

1. Whether the SEC judgment essentially announced rescission or annulment of the contract of sale of the FRCCI shares of stock.
 2. The appropriateness of holding FRCCI, not the direct seller, liable for the refund.
 3. The justification for imposing a 12% annual interest on an obligation not classified as a loan or money forbearance.
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****Court’s Decision:****

The Supreme Court granted the petition, reversing the Court of Appeals' decision. The Supreme Court found no credible evidence of fraud committed by petitioners in selling the shares or any default in their obligations that necessitated rescission of the contract. The alleged infractions were deemed not substantial enough to warrant contract rescission. Hence, the case for annulment or rescission due to fraudulent misrepresentation or substantial contractual breach did not hold. However, the court recognized a minor negligence on the part of the petitioners concerning the reservation cancellation for April 1, 1999, awarding nominal damages of P5,000.00 to the respondents for this oversight.

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****Doctrine:****

The decision reiterates key principles regarding contract rescission and the nature of fraudulent inducement. It emphasizes that rescission is only permissible for substantial breaches that defeat the contract's essence and that claims of fraud require unequivocal evidence demonstrating that consent was materially influenced by deceit.

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****Class Notes:****

- ****Fraudulent Inducement & Contract Rescission:**** For a contract to be annulled or rescinded due to fraud, it must be shown that consent was substantially acquired through misrepresentation that directly influenced the aggrieved party's decision to enter the contract. Minor breaches or dissatisfaction with contract outcomes do not suffice for rescission.
- ****Nominal Damages:**** Recognizes a technical injury and vindicates a right without necessarily corresponding to a financial loss. Awarded when a right is violated without substantial damage or loss.
- ****Interest on Obligations:**** The imposition of a 12% interest rate suggests a legal perspective that treats the obligation as akin to a forbearance of money, emphasizing the need for clear classification of obligations for interest application.

Relevant provisions: Civil Code of the Philippines (Articles 1191, 1385, 1390, 2221, 2222)

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****Historical Background:****

This case reflects the judiciary's attention to disputes involving investment in leisure and real estate developments, especially when allegations of misrepresentation impact investor decisions. It underscores the requirement for clarity and honesty in promotional activities and the stringent standards for proving fraud or substantial breach in contract disputes.