

Title:

Government Service Insurance System vs. The Hon. Court of Appeals et al.

Facts:

The case arose from the annual stockholders' meeting of Manila Electric Company (Meralco) scheduled on May 27, 2008, requiring proxies to be submitted by May 17, 2008, and validated on May 22. Due to the resignation of the corporate secretary, Jose Vitug was designated by Meralco's board on May 15, 2008, but Anthony Rosete presided over the proxy validation. The Government Service Insurance System (GSIS), a major shareholder, objected to the proxy validation and certification favoring Meralco management.

On May 23, 2008, GSIS filed a complaint with the Regional Trial Court (RTC) of Pasay City, seeking to declare certain proxies invalid. Subsequently, on May 26, it withdrew its RTC complaint and filed an Urgent Petition with the Securities and Exchange Commission (SEC) for similar relief. The same day, the SEC issued a Cease and Desist Order (CDO) against the use of said proxies. Despite the CDO, the Meralco stockholders' meeting proceeded on May 27.

Following the meeting, on May 28, the SEC issued a Show Cause Order (SCO) against respondents, leading them to file a petition for certiorari with the Court of Appeals (CA), challenging the SEC's orders. The controversy led to multiple court proceedings, culminating in a CA decision on July 23, 2008, declaring the SEC's orders void and dismissing GSIS's complaint for lack of SEC jurisdiction.

Issues:

1. Whether the SEC has jurisdiction over the proxy validation issue.
2. The validity of the CDO and SCO issued by the SEC against the use of certain proxies.

Court's Decision:

1. The Supreme Court held the SEC did not have jurisdiction over the dispute concerning the proxy validation in relation to the election of Meralco's directors. The jurisdiction over election-related controversies, including the validation of proxies, lies with the regular courts as per the Securities Regulation Code (SEC) in relation to Presidential Decree No. 902-A and the Interim Rules on Intra-Corporate Controversies.
2. Given the SEC's lack of jurisdiction, the CDO and SCO issued by the SEC were declared null and void. Moreover, the Court noted procedural deficiencies in the issuance of the CDO, such as lack of clarity and basis for its issuance and the fact it was issued by only one

commissioner, contravening the SEC's collegial nature.

Doctrine:

This case reiterates that jurisdiction over controversies arising out of intra-corporate relations, specifically those related to the election of corporate directors, falls within the jurisdiction of regular courts as per the SRC and related laws. It also highlights the importance of procedural due process and the collegial nature of decision-making within regulatory bodies like the SEC.

Class Notes:

- Jurisdiction over intra-corporate disputes, including election contests, lies with regular courts, not the SEC.
- SEC actions, particularly the issuance of CDOs, must be based on clear statutory authority and follow due process, including collegial decision-making.
- Legal actions involving government agencies or GOCCs must be premised on clear statutory mandates regarding jurisdiction and procedural requirements.

Historical Background:

The controversy demonstrates the complexities of corporate governance in the Philippines, highlighting the dynamic between government-owned corporations (like GSIS) and private entities (like Meralco). It underscores the legal framework governing corporate elections and the regulatory oversight of the SEC, emphasizing the jurisdictional boundaries between bodies vested with authority over corporate disputes.