

Title: SEC vs. Price Richardson Corporation and Others: Determination of Probable Cause

Facts:

1. ****Incorporation and Operations****: Price Richardson Corporation was incorporated in the Philippines on December 7, 2000, primarily to provide administrative services.
2. ****Whistleblower Report****: On October 17, 2001, former employee Michelle S. Avelino reported to the National Bureau of Investigation (NBI) that Price Richardson was involved in “boiler room” operations, selling non-existent stocks to investors under high pressure.
3. ****Supporting Affidavit****: Janet C. Rillo, another former employee, corroborated Avelino’s claims and provided specifics of her involvement.
4. ****Search Warrants and Seizure****: On November 15, 2001, the Regional Trial Court of Makati issued search warrants. The next day, office equipment and documents were seized from Price Richardson.
5. ****SEC Complaint****: On December 4, 2001, the SEC filed a complaint against Price Richardson, some of its directors, Consuelo Velarde-Albert, and Gordon Resnick for violations of the Securities Regulation Code (Sections 26.3 and 28) and Estafa under Article 315(1)(b) of the Revised Penal Code.
6. ****State Prosecutor Findings****: On March 13, 2002, State Prosecutor Aristotle M. Reyes dismissed the complaint due to lack of probable cause. The SEC moved for reconsideration, which was denied on May 31, 2002.
7. ****DOJ Review****: The SEC’s Petition for Review was denied by the DOJ, first by Secretary Raul M. Gonzalez on April 12, 2005, and upon motion for reconsideration on July 5, 2006.
8. ****Court of Appeals****: The Court of Appeals affirmed the DOJ’s Resolutions on May 26, 2011, noting lack of direct evidence of unauthorized trading by Price Richardson and involvement of Velarde-Albert and Resnick.
9. ****Supreme Court Appeal****: On July 26, 2011, the SEC filed a Petition for Review before the Supreme Court to challenge the Court of Appeals’ decision.

Issues:

1. ****Grave Abuse of Discretion****: Whether courts can review the prosecutor’s determination of probable cause on grounds of grave abuse of discretion.
2. ****Probable Cause****: Whether there was probable cause to indict Price Richardson Corporation and its officers for violations of Sections 26.3 and 28 of the Securities Regulation Code as well as Article 315(1)(b) of the Revised Penal Code.

Court’s Decision:

Issue 1: Grave Abuse of Discretion

- **Ruling**: The Supreme Court reiterated that while the determination of probable cause is primarily an executive function, courts may review such determination if there is grave abuse of discretion. Grave abuse of discretion is defined as a whimsical, capricious or arbitrary exercise of judgment tantamount to a lack or excess of jurisdiction.

Issue 2: Probable Cause

- **Price Richardson Corporation**:

- **Ruling**: Contrary to the findings of State Prosecutor Reyes and the DOJ, the Supreme Court ruled that the SEC provided sufficient bases to form a belief of probable cause. Evidence included company brochures, trade confirmations, and the sworn statements of defrauded investors.

- **Action**: Ordered that probable cause existed for filing an information against Price Richardson under Sections 26.3 and 28 of the Securities Regulation Code.

- **Velarde-Albert and Resnick**:

- **Ruling**: No probable cause was found against Velarde-Albert and Resnick due to lack of specific allegations or evidence showing active participation in the unlawful securities trading.

- **Action**: Affirmed the dismissal of complaints against Velarde-Albert and Resnick.

Doctrine:

- **Probable Cause Review**: Courts can review a prosecutor's finding of probable cause only upon demonstration of grave abuse of discretion.

- **Corporate Liability**: A corporation's violation of law must be corroborated by concrete evidence to support allegations of fraudulent activities, and corporate officers can only be held criminally liable if their specific participation is proved.

Class Notes:

Key Elements:

- **Grave Abuse of Discretion**: An arbitrary or whimsical decision, a gross violation deviating from statutory requirements.

- **Probable Cause**: A reasonable ground of suspicion backed by circumstances suggesting a crime has been committed.

- **Securities Regulation Code**:

- **Section 26.3**: Prohibits fraudulent transactions related to securities.

- **Section 28**: Requires registration of anyone involved in buying or selling securities.

- **Revised Penal Code**:
- **Article 315(1)(b)**: Defines and penalizes Estafa involving misappropriation or abuse of confidence.

Historical Background:

- The case addresses regulatory enforcement and the jurisdiction of the SEC and DOJ concerning securities violations in the Philippines. It emerged in the early 2000s amid increasing scrutiny of corporate practices and the need for robust legal frameworks to combat financial fraud. The decision reinforced the principle that executive determinations can still be checked by judiciary to ensure justice and accountability.