

Title:

SEC vs. Court of Appeals and Omico Corporation: Jurisdiction Over Proxy Validation for Election of Directors

Facts:

Omico Corporation, a publicly listed company, scheduled its annual stockholders' meeting for November 3, 2008. The company set an October 23, 2008 deadline for proxy submissions and validated proxies on October 25, 2008. Astra Securities Corporation, which owned 18% of Omico's shares, objected to proxies in favor of Tommy Kin Hing Tia, representing 38% of Omico's stock. Astra argued that these proxies violated SRC Rule 20(11)(b)(xviii) because brokers issued proxies without their clients' express written authorization. Astra also claimed that Tia had over 19 proxies, which under SRC Rule 20(2)(B)(ii)(b), presumed solicitation, violating Section 20.1 of the SRC.

Despite objections, Omico's Board of Inspectors validated the proxies. On October 27, 2008, Astra filed a complaint with the SEC to invalidate these proxies and requested a cease and desist order (CDO) to stop Omico's annual meeting. The SEC issued the CDO on October 30, 2008. However, the CDO was not served in time, and the meeting proceeded with 52.3% attendance, electing directors by proxy upon a motion.

Astra filed an indirect contempt complaint against Omico with the SEC. Meanwhile, Omico sought certiorari and prohibition from the Court of Appeals (CA), alleging grave abuse of discretion by the SEC in issuing the CDO. The CA ruled in favor of Omico, declaring the CDO null and void. Astra then petitioned the Supreme Court, and the SEC also filed a Petition for Certiorari. Both petitions were consolidated.

Issues:

1. Does the SEC have jurisdiction over controversies arising from the validation of proxies for the election of directors of a corporation?

Court's Decision:

The Supreme Court ruled that the SEC does not have jurisdiction over the validation of proxies when related to the election of corporate directors. This ruling aligns with the Supreme Court's *GSIS v. CA* decision, which clarified that such matters fall under the jurisdiction of regular courts.

Analysis of Issues:

1. **Jurisdiction of SEC over Proxy Validation for Director Elections:**

- **GSIS v. CA Precedent:** The Court reiterated that, with the passage of the Securities Regulation Code (SRC), jurisdiction over intra-corporate controversies, including election-related disputes, was transferred to the regular courts. The SEC's authority to regulate proxies remains for non-election matters.
- **Election Contests Defined:** Under Section 2, Rule 6 of the Interim Rules of Procedure Governing Intra-Corporate Disputes, election contests encompass title claims to elective office, validation of proxies, election validity, and candidate qualifications.
- **Rule Harmonization:** The Supreme Court harmonized SRC Rule 20 on proxy regulation with the Interim Rules, holding that all disputes affecting director elections, including proxies, are within regular courts' jurisdiction to avoid conflict and ensure comprehensive adjudication.

Doctrines:

- **Election Controversies Scope:** The regular courts hold original and exclusive jurisdiction over issues involving the election of corporate directors, including proxy validation when related to the election.
- **Proxy Validation for Quorum/Election:** Any disputes over proxies affecting quorum determination or elections fall under regular courts, emphasizing consistent jurisdiction over such intra-corporate disputes.
- **Distinguishing SEC's Regulatory Power:** The SEC retains power over proxy issues unrelated to elections, maintaining dual but distinct regulatory and adjudicative responsibilities.

Class Notes:

- **Election Contests Jurisdiction:** Regular courts, not SEC, handle election contests, including proxy validations for director elections. (Sec. 5(c) P.D. 902-A, SRC Sec. 5.2)
- **Proxy Regulation vs. Election Jurisdiction:** SEC oversees proxy solicitation except when it pertains to elections, where regular courts have exclusive jurisdiction. (SRC Rule 20, Interim Rules Rule 6)
- **GSIS v. CA Doctrine:** Reinforces regular courts' jurisdiction over election-related incidents and distinguishes SEC's regulatory authority in non-election matters.

Historical Background:

The case background involves a critical period when the Philippines enhanced corporate governance and clarified regulatory roles. Post-2000 reforms included the SRC, transferring intra-corporate dispute jurisdiction to courts, underscoring transparency and judicial

oversight in corporate elections. This emphasized streamlined, conflict-free adjudication processes in corporate governance.

By defining jurisdictional boundaries clearly, the cases like SEC vs. Omico and GSIS v. CA aimed to prevent overlapping jurisdiction disputes, solidifying roles in corporate legal frameworks.