

ALFREDO P. PASCUAL AND LORETA S. PASCUAL, PETITIONERS, VS. COURT OF APPEALS (FORMER SEVENTH DIVISION), ERNESTO P. PASCUAL AND HON. ADORACION ANGELES, IN HER CAPACITY AS PRESIDIN...

G.R. No. 138542. August 25, 2000

Ponente: MENDOZA, J.

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MENDOZA, J.:

The question for decision in this case is whether an action for reconveyance of a piece of land and for accounting and damages which private respondent Ernesto P. Pascual brought against his brother, petitioner Alfredo P. Pascual, and the latter's wife involves an intra-corporate dispute beyond the jurisdiction of the Regional Trial Court, Branch 121, Kalookan City in which it was filed. The trial court held that the action did not constitute an intra-corporate dispute and, therefore, denied petitioners' motion to dismiss. The Court of Appeals sustained the order of the trial court. Hence, this petition for review of the decision[1] of the appellate court. We affirm.

The facts are as follows:

On February 7, 1996, private respondent Ernesto P. Pascual filed a complaint in the Regional Trial Court for "accounting, reconveyance of real property based on implied trust resulting from fraud, declaration of nullity of TCT, recovery of sums of money, and damages" against his brother, petitioner Alfredo, and the latter's wife Loreta Pascual. The pertinent parts of his complaint read:

3. Plaintiff Ernesto and defendant Alfredo Pascual are full blood brothers. They, along with Araceli P. Castro, Ester P. Abad, Edgardo P. Pascual, Sr. (now deceased), Corazon P. Montenegro, Leonor P. Rivera, Luciano Pascual, Jr., and Teresita P. Manuel, are legitimate children of Luciano Pascual, Sr. and Consolacion Pascual. Defendant Loreta Pascual is the wife of defendant Alfredo.
4. Between 1963 to 1975, Luciano R. Pascual, Sr. acquired substantial shares in Phillens Manufacturing Corp. Luciano, Sr. parceled out and assigned a good number of these shares in the names of his children.
5. With Luciano's substantial shareholdings, his eldest son, defendant Alfredo became President, General Manager, and Vice-Chairman of the Board of Phillens. Plaintiff was only 20 years old then.
6. Defendant Alfredo was also president of L.R. Pascual & Sons, Inc. which held substantial shares in Phillens. (Plaintiff is a stockholder of L. R. Pascual & Sons, Inc.)
7. Although during and after the lifetime of the parties' parents, defendant Alfredo held family property in trust for Luciano Sr. and Consolacion, and for his brothers and sisters, defendant Alfredo gave the latter no accounting at any point in time contrary to what their father intended.
8. Because from 1969 to 1990, defendant Alfredo turned over zero profit to plaintiff Ernesto as far as his share was concerned, plaintiff tried to arrange a meeting between them about the matter of accounting -- without any success during a 5-year period (1990-1995). Defendant Alfredo would each time be sensitive, evasive, and

drunk, so nothing became of those efforts.

....

10. Since defendant Alfredo was President of L.R. Pascual & Sons, Inc. which held family properties in Quezon City, Manila, and Baguio, plaintiff wanted this matter taken up in a meeting he requested with defendant Alfredo. In addition, plaintiff asked defendant Alfredo for an accounting in L.R. Pascual & Co., a registered partnership distinct from L.R. Pascual & Sons, Inc. which would be discussed in that requested meeting.

....

12. Because of defendant Alfredo's icy silence and unmistakable attempts to claim the lid on plaintiff Ernesto Pascual, plaintiff conducted an inquiry. As a result, he discovered that when defendant Alfredo caused the dissolution of Phillens Manufacturing Corporation by asking for a shortening of its term, defendant Alfredo represented in an affidavit of undertaking that

(a) he is the owner of the majority of the outstanding capital stock of the corporation;

(b) that the corporation has no obligation, whether existing or contingent, direct or indirect, due or payable to any person whomsoever, natural or juridical;

(c) he is assuming and will pay any and all valid claims or demands by creditors, stockholders, or any third person or persons, presented after the dissolution of the corporation.

13. By taking a position adverse to the trust and to his family's, defendant Alfredo, greatly profiting from Phillens, now held he owned majority and will undertake to pay any claimant or creditor. Yet, defendant Alfredo had not paid plaintiff what was properly owing to him.

14. Plaintiff also discovered, to his dismay, that defendant Alfredo had written an October 8, 1990 letter to the Securities & Exchange Commission falsely representing as follows:

October 8, 1990

Examiner & Appraiser Dept. [sic]
Securities & Exchange Commission
E. de los Santos Avenue
Mandaluyong, Metro Manila

Gentlemen:

This will certify that the P3.3-million notes payable as shown in the balance sheet of Phillens Manufacturing Corporation as of June 30, 1990, is [sic] my personal advances.

Since I am assuming the assets and liabilities of the company, to which all the stockholders have consented, I am likewise giving my consent to the dissolution of the corporation.

Very truly yours,

ALFREDO P. PASCUAL

16. Further, on inquiry, plaintiff discovered that last April 3, 1989, defendant Alfredo caused an appraisal of the fair market value of the land and buildings of Phillens in Kalookan, excluding equipment, remaining stock and inventory. Aware that Cuervo had appraised such properties at P10,977,000 as of March 10, 1989, defendant Alfredo hatched a ploy to buy for himself such properties at only P4.5 million. (A copy of the April 3, 1989

Cuervo report addressed to defendant Alfredo is here attached as Annex A.)

18. To consummate his fraudulent design, defendant Alfredo caused in bad faith the cancellation of TCT C-28572 and the issuance of TCT 215804 in his and defendant Loreta's name (copy of which is here attached as Annex D). That TCT is of course void, proceeding as it does from a void transfer, which constitutes fraud and a breach of trust.

On March 21, 1996, petitioners filed a motion to dismiss on the ground that the complaint raises an intra-corporate controversy between the parties over which original and exclusive jurisdiction is vested in the Securities and Exchange Commission (SEC). At first, the trial court granted petitioners' motion and dismissed the complaint on the ground that the complaint stemmed from alleged fraudulent acts and misrepresentations of petitioner Alfredo P. Pascual as a corporate officer of Phillens Manufacturing Corp. (Phillens) and thus the SEC had jurisdiction over the case. However, on respondent's motion, the trial court reconsidered its order and reinstated respondent's action. In an order, dated September 29, 1997, the trial court held that, since the corporation had been dissolved in 1990 and its corporate affairs terminated in 1993, there were no more corporate affairs to speak of at the time of the filing of the complaint. The court also allowed the amendment of the complaint. It appears that, pending resolution of the motion for reconsideration, respondent amended his complaint by alleging the following matters which are underlined:

4. Luciano R. Pascual, Sr. together with L.R. Pascual & Sons. Inc. acquired approximately 38% of shares in Phillens Manufacturing Corp., a close corporation. Luciano Sr. died in 1984 while Consolacion died in 1986. Thus, plaintiff became owner by operation of law of 1/9 of his parents' stockholdings since they died intestate without obligations.

5. With Luciano's substantial shareholdings, defendant Alfredo became President, General Manager, and Vice-Chairman of Phillens in 1968 or 1969, positions which he held until 1990 when Phillens was dissolved.

6. Defendant Alfredo held in trust for the benefit of Luciano Sr. and Consolacion, and for his brothers and sisters, plaintiff included, said stockholdings and the properties of Phillens.

7. As trustee defendant Alfredo did not turn over the properties and sums due to plaintiff and the former even failed to account for the trust estate and its earnings, to the grave prejudice of the latter.

8. One of the properties composing the trust estate, TCT No. C-28572 with an area of 7,528 square meters located in Caloocan City, was registered in the name of defendants under devious and fraudulent circumstances engineered by Alfredo.

8.1. Said property was appraised conservatively to have a market value of no less than P10.9 Million in 1989.

8.2 Although Alfredo was fully aware of its market value, Alfredo schemed, manipulated and succeeded in transferring title to and possession in his favor of TCT No. C-28572 in 1989 for an alleged consideration of P4.5 Million, in violation of his duties as trustee.

8.3 In order to cover-up such serious breach of trust, Alfredo maliciously caused the dissolution of Phillens in 1990, shortly after ownership was transferred to him, and further caused the destruction of Phillens records thereby rendering its stocks valueless after its corporate affairs were wound up in 1993.

8.4 Defendants presently appear as legal and beneficial owners by virtue of TCT No. C-215804.

Petitioners reiterate their contention that the complaint against them involves an intra-corporate dispute cognizable by the SEC and, therefore, the Regional Trial Court should have dismissed the complaint. They complain that the trial court should not have allowed the amendment of the complaint because it was done in order to confer jurisdiction on the trial court.

First. Petitioners contend that the existence of a corporation at the time of filing of a complaint involving an intra-corporate dispute is not required in order that such dispute be cognizable by the SEC because such requirement is not found in P.D. No. 902-A.

This contention has no merit. P.D. 902-A, §5 provides:

In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of association registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving:

....

b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates; between any or all of them and the corporation, partnership or association of which they are stockholders, members or associates, respectively; and between such corporation, partnership or association and the state insofar as it concerns their individual franchise or right to exist as such entity;

....

Sec. 5(b) does not define what an intra-corporate controversy is, but case law has fashioned out two tests for determining what suit is cognizable by the SEC or the regular courts, and sometimes by the National Labor Relations Commission. The first test uses the enumeration in §5(b) of the relationships to determine jurisdiction,[2] to wit:

- (1) Those between and among stockholders and members;
- (2) Those between and among stockholders and members, on one hand, and the corporation, on the other hand; and
- (3) Those between the corporation and the State but only insofar as its franchise or right to exist as an entity is concerned.

The second test, on the other hand, focuses on the nature of the controversy itself.[3] Recent decisions of this Court consider not only the subject of their controversy but also the status of the parties.[4]

We hold that the Court of Appeals correctly ruled that the regular courts, not the SEC, have jurisdiction over this case. Petitioners and private respondent never had any corporate relations in Phillens. It appears that private respondent was never a stockholder in Phillens, of which the parties' predecessor-in-interest, Luciano Pascual, Sr., was a stockholder and whose properties are being litigated. Private respondent's allegation is that, upon the death of their father, he became co-owner in the estate left by him, and part of this estate includes the corporate interests in Phillens. He also alleges that petitioners repudiated the trust relationship created between them and appropriated to themselves even the property that should have belonged to respondent. It is thus clear that there is no corporate relationship involved here. That petitioner Alfredo Pascual was a corporate officer holding in trust for his brother their father's corporate interests did not create an intra-corporate relationship between them.

Nor is the controversy corporate in nature. As we have stated before, the grant of jurisdiction must be viewed in the light of the nature and function of the SEC under the law.[5] P.D. No. 902-A, §3 gives the SEC jurisdiction, supervision, and control over all corporations, partnerships or associations, who are the grantees of primary franchise and/or a license or permit issued by the government to operate in the Philippines. From this, it can be deduced that the regulatory and adjudicatory functions of the SEC, insofar as intra-corporate controversies are concerned, comes into play only if a corporation still exists.

In the case at bar, the corporation whose properties are being contested no longer exists, it having been completely

dissolved in 1993; consequently, the supervisory authority of the SEC over the corporation has likewise come to an end.

It is true that a complaint for accounting, reconveyance, etc. of corporate properties has previously been held to be within the jurisdiction of the SEC.^[6] Nonetheless, a distinction can be drawn between those cases and the case at bar, for, in those cases, the corporations involved were still existing, whereas in the present case, there is no more corporation involved. There is no question that assessing the financial status of an existing corporation, for purposes of an action for accounting, requires the expertise of the SEC. But in the case of a dissolved corporation, no such expertise is required, for all its business has been properly accounted for already, and what is left to be determined is properly within the competence of regular courts.

It may be noted in this connection that pursuant to R.A. No. 8799, §5.2,^[7] which took effect on August 8, 2000, the jurisdiction of the SEC to decide cases involving intra-corporate dispute was transferred to courts of general jurisdiction and, in accordance therewith, all cases of this nature, with the exception only of those submitted for decision, were transferred to the regular courts. Hence, the question whether this case should be filed in the SEC is now only of academic interest. For even if it involves an intra-corporate dispute, it would be remanded to the Regional Trial Court just the same.

Second. Petitioners contend that the lower courts erred in allowing the amendment of the complaint, which were actually made to confer jurisdiction on the trial court after the original complaint was dismissed.

This contention has no basis. The original complaint alleged that Phillens has already been completely dissolved. In addition, it alleged a breach by petitioner Alfredo P. Pascual of the implied trust created between him and his brother, respondent Ernesto P. Pascual, after the death of their father. Thus, even without the amendments, the allegations in the original complaint were sufficient to confer jurisdiction on the trial court. The amendments made by respondent were merely for the purpose of making more specific his original allegations.

WHEREFORE, the decision of the Court of Appeals is AFFIRMED.

SO ORDERED.

Bellosillo, (Chairman), Quisumbing, Buena, and De Leon, Jr., JJ., concur.

[1] Per Justice Conchita Carpio-Morales and concurred in by Justices Jainal D. Rasul and Bernardo P. Abesamis.

[2] *Union Glass & Container Corporation v. Securities and Exchange Commission*, 126 SCRA 31 (1983); *Philex Mining Corporation v. Reyes*, 118 SCRA 602 (1982); *Sunset View Condominium Corp. v. Campos, Jr.*, 104 SCRA 295 (1981)

[3] *Rural Bank of Salinas v. Court of Appeals*, 210 SCRA 510 (1992); *Dionisio v. CFI of South Cotabato*, Br. 11, 124 SCRA 222 (1983)

[4] *Saura v. Saura*, G.R. No. 136159, September 1, 1999; *Lozano v. De los Santos*, 274 SCRA 452 (1997)

[5] *Supra* note 2.

[6] *Allese v. Court of Appeals*, 240 SCRA 495 (1995); *Malayan Integrated Industries Corp. v. Mendoza*, 154 SCRA 540 (1987)

[7] “The Commission’s jurisdiction over all cases enumerated under Section 5 of Presidential Decree No. 902-A is hereby transferred to the Courts of general jurisdiction or the appropriate Regional Trial Court: Provided, That

the Supreme Court in the exercise of its authority may designate the Regional Trial Court branches that shall exercise jurisdiction over these cases. The Commission shall retain jurisdiction over pending cases involving intra-corporate disputes submitted for final resolution which should be resolved within one (1) year from the enactment of this Code. The Commission shall retain jurisdiction over pending suspension of payments/rehabilitation cases filed as of 30 June 2000 until finally disposed.”

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