

DMRC ENTERPRISES, PETITIONER, VS. ESTE DEL SOL MOUNTAIN RESERVE, INC., RESPONDENT.

G.R. No. 57936. September 28, 1984

Ponente: GUTIERREZ, JR., J.

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GUTIERREZ, JR., J.:

A question of proper forum, as between the regular courts and the Securities and Exchange Commission, to take cognizance of a controversy involving, inter alia, the issuance of shares of stock as payment of a valid debt of a corporation is brought before us as the sole issue in this petition for review of the April 23, 1981 order of the Court of First Instance of Rizal, Quezon City, Branch LII.

The facts of the case are simple.

Petitioner is a partnership engaged in the business of general construction and leasing heavy equipment and other allied transactions.

On May 12, 1978, the petitioner made an offer in writing to the private respondent for the lease to it of three (3) units of heavy equipment namely: One (1) unit Payloader "KIMCO" 2-1/2 cubic yard at P130.00 per hour; One (1) unit Bulldozer D-80-A with ripper at P150.00 per hour; and One (1) unit Bulldozer at P130.00 per hour with a guaranteed minimum use of two hundred (200) hours a month, excluding breakdown and that the expenses of bringing the subject equipment to the jobsite shall be for the account of the respondent.

As further conditions of the agreement, respondent was to advance the sum of P5,000.00 per unit to be deducted from the first collection to be made by the petitioner; that the payments due to the petitioner shall be made every 15th and 30th of each calendar month and that an amount equivalent to 30% of the collection shall be invested in the purchase of shares of stock of the defendant corporation at the market value of P37,000.00 per share. The offer was accepted.

As a result of the agreement between petitioner and private respondent, the former proceeded to perform what was incumbent upon it. For the period from September 1, 1978 up to October 15, 1978, inclusive, the three equipments' total job performance amounted to P122,207.31 of which P87,106.83 was to be paid in cash, and P35,100.48 invested in the purchase of shares of stock in accordance with the agreement between the parties. Statements of account were periodically sent to the respondent.

However, despite repeated demands made by the petitioner to the respondent for the payment of outstanding obligations, the respondent refused to comply with its obligations to the petitioner. Thus, on March 25, 1980, the petitioner filed a complaint before the Court of First Instance of Rizal, Quezon City, Branch III, against the private respondent Este del Sol Mountain Resort.

In due time, respondent Este del Sol Mountain Resort as defendant in the complaint interposed a motion to dismiss on the sole ground that the respondent court has no jurisdiction over the nature of the action or suit.

On April 22, 1981, the trial court issued an order granting the motion to dismiss. Hence, this petition.

It is respondent's contention that the court has no jurisdiction over the nature of the action or suit by virtue of Presidential Decree No. 902-A. Section 5 of P.D. 902-A provides:

xxx xxx xxx

"SEC. 5. In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of associations registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving -

"a) Devices or schemes employed by or any acts, of the board of directors, business associates, its officers or partners, amounting to fraud and misrepresentation which may be detrimental to the interest of the public and/or of the stockholder, partners, members of associations or organizations registered with the Commission.

(b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associations; 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;

(c) Controversies in the election or appointments of directors, trustees, officers or managers of such corporations, partnerships or associations."

The respondent states that to compel a corporation to issue its shares of stock in the name of subscribers or stockholders involves controversies arising out of intracorporate affairs of the corporation and its stockholders or subscribers. It is further argued that since petitioner seeks to recover from respondent some shares allegedly arising out of contractual relations whereby petitioner undertook to render services for the respondent and the respondent agreed to issue shares of stock to the petitioner, the latter is thereby made a stockholder or shareholder of the respondent. Thus, the Securities and Exchange Commission is the proper forum to take cognizance of the present controversy.

On the other hand, petitioner DMRC maintains that the complaint is simply an action for the collection of money and delivery of personal property representing unpaid obligations within the competence of the regular courts.

We agree with the petitioner. Jurisdiction of a court is conferred by the Constitution and by the laws in force at the time of the commencement of the action. (*People v. Mariano*, 71 SCRA 600; *Villamayor v. Luciano*, 88 SCRA 156). However, whether or not a court has jurisdiction over the subject matter of a case is determined from the allegations of the complaint (*Magay v. Estandan*, 69 SCRA 456; *Republic v. Sebastian*, 72 SCRA 222). Therefore, to resolve the issue raised to us, an interpretation and application of the law on jurisdiction, must be made vis-a-vis the averments of the petitioner's complaint.

The complaint states that DMRC entered into a contract of lease with the defendant-respondent with the latter as lessee of heavy equipments. The rentals were to be paid partly in cash and partly in the form of shares of stock. Upon failure of the lessee to pay the agreed consideration, Civil Case No. Q-29585 for collection was filed against the defendant-respondent. The amount involved amounted to P122,207.31. The complaint was filed with the Court of First Instance of Rizal, Quezon City, Branch LII on the strength of Section 44, The Judiciary Act of 1948 to wit:

"Courts of First Instance shall have original jurisdiction:

xxx xxx xxx

xxx xxx xxx

(c) In all cases in which the demand, exclusive of interest or value of the property in controversy, amounts to more than ten thousand pesos;"

xxx xxx xxx

However, in assailing the jurisdiction assumed by the court, the respondent invokes Section 5, Presidential Decree 902-A earlier cited.

Nowhere in petitioner's complaint do we find any averment of fraud or misrepresentation which may have been committed by respondent company against petitioner to bring paragraph (a) of said Decree into play. Nor would paragraph (c) be of any significance. The bone of contention is thus, paragraph (b) on controversies arising out of intracorporate or partnership relations.

As we have explained in the case of *Union Glass and Container Corporation v. Securities and Exchange Commission* (126 SCRA 31) -

"This grant of jurisdiction must be viewed in the light of the nature and function of the SEC under the law. Section 3 of PD No. 902-A confers upon the latter absolute jurisdiction, supervision, and control over all corporations, partnerships or associations, who are grantees, of primary franchise and/or license or permit issued by the government to operate in the Philippines x x x.' The principal function of the SEC is the supervision and control over corporations, partnerships and associations with the end in view that investment in these entities may be encouraged and protected, and their activities pursued for the promotion of economic development. (Vide, Whereas Clauses of P.D. 902-A).

"It is in aid of this office that the adjudicative power of the SEC must be exercised. Thus the law explicitly specified and delimited its jurisdiction to matters intrinsically connected with they regulation of corporations, partnerships and associations and those dealing with the internal affairs of such corporations, partnerships or associations."

Considering the announced policy of PD 902-A, the expanded jurisdiction of the respondent Securities and Exchange Commission under said decree extends only and exclusively to matters arising from contracts involving investments in private corporations, partnerships, and associations. Jurisdiction over all other claims remains with the regular courts. A perusal of the complaint, styled "sum of money", shows that the case at bar does not involve intra-corporate matters as to make it fall within the original and exclusive jurisdiction of the Securities and Exchange Commission. It is clear that petitioner DMRC has no intra-corporate relation with the respondent corporation. Nor can petitioner's cause of action be said to involve or arise from an intra-corporate matter. The complaint merely states that a contract of lease of heavy equipment was entered into by the parties and that respondent lessee failed to pay the agreed consideration for said lease, and petitioner now seeks to enforce the contract seeking payment under Article 1657(1) of the Civil Code of the Philippines to wit:

"ARTICLE 1657. The lessee is obliged:

(1) To pay the price of the lease according to the terms stipulated;"

xxx xxx xxx

It must be stressed that the plaintiff-petitioner submitted himself to the jurisdiction of the lower court as creditor and the respondent did so as debtor. The fact that the case involves shares of stock to be used as payment for lease rentals does not convert it into an intra-corporate controversy. In fact, the greater part of the petitioner's claim is in terms of cash or money. To pass upon a money claim under a lease contract would be beyond the competence of the Securities and Exchange Commission and to separate the claim for money from the claim for shares of stock would be splitting a single cause of action resulting in a multiplicity of suits.

The purpose and the wording of the law escapes the respondent. Nowhere in said decreed we find even so much as an intimation that absolute jurisdiction and control is vested in the Securities and Exchange Commission in all matters affecting corporations. To uphold the respondent's argument would remove without legal imprimatur from the regular courts all conflicts over matters involving or affecting corporations, regardless of the nature of the transactions which give rise to such disputes. The courts would then be divested of jurisdiction not by reason of the nature of the dispute submitted to them for adjudication, but solely for the reason that the dispute involves a corporation. This cannot be done. To do so would not only be to encroach on the legislative prerogative to grant and revoke jurisdiction of the courts but such a sweeping interpretation may suffer constitutional infirmity. Neither can we reduce jurisdiction of the courts by judicial fiat. (Article X, Section 1, The Constitution).

Further buttressing the petitioner's stand is the fact that it is not a shareholder of the respondent corporation, no transfer or registration of shares having been made in its name yet. Precisely, the petitioner prays that it be made a stockholder of the corporation by virtue of the agreement in the lease contract. Hence, there can be no intra-corporate controversy between a stockholder and the corporation in the case at bar. It must be remembered that a determination of the rights of the parties under the contract is necessary before any mention can be made of the issuance of shares of stock. Petitioner must first be shown to be entitled to its claim under the disputed contract. Such a determination falls under the juris- of the Regional Trial Court, particularly as it involves not only a question of issuance of shares but more so, the interpretation of a contract of lease and a claim for a sum of money under the said contract. Only after a finding of entitlement and the implementation according to the contractual, terms may the Securities and Exchange Commission assume jurisdiction in case a question later arises regarding said shares. To enforce the basic contract is clearly beyond the power of the Securities and Exchange Commission and would be excess of jurisdiction if it were to act thereon.

Respondent cites the case of PAIC Securities v. Securities and Exchange Commission and Pedro Ong (G. R. No. 53981, June 11, 1980) claiming that with an almost identical factual background to the case at bar, the jurisdiction of the Securities and Exchange Commission was upheld. The respondent overlooks a singular fact which distinguishes it from the present controversy. The case of Pedro Ong was not merely a simple money claim and action for specific performance arising from a contractual obligation. It emanated from stock transactions between a stockbroker (PAIC) and its client (Pedro Ong). Definitely, such an action arising from the stock operations of a stockbroker comes within the jurisdiction and control of the Commission. Said case may not be invoked to support the respondent's contention.

WHEREFORE, in view of the foregoing, the petition is hereby GRANTED and the order of the respondent Presiding Judge of the Court of First Instance of Rizal, Quezon City, Branch LII dated April 23, 1981 in Civil Case No. Q-29585 REVERSED and SET ASIDE.

SO ORDERED.

Teehankee (Chairman), Melencio-Herrera, Plana, Relova, and De La Fuente, JJ., concur.

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