

****Title:**** China Banking Corporation vs. Court of Appeals and Valley Golf and Country Club, Inc.

****Facts:****

On August 21, 1974, Galicano Calapatia, Jr., a stockholder of Valley Golf & Country Club, Inc. (VGCCI), pledged his Stock Certificate No. 1219 as collateral to China Banking Corporation (CBC). CBC notified VGCCI of the pledge, which VGCCI recorded. On August 3, 1983, Calapatia borrowed P20,000.00 from CBC, secured by the same pledged stock.

Calapatia defaulted and on April 12, 1985, CBC filed for the extrajudicial foreclosure of the pledged stock. After notifying VGCCI on May 14, 1985, CBC requested the transfer of the pledged stock to its name, which VGCCI denied due to Calapatia's unpaid dues.

Nonetheless, a public auction was held on September 17, 1985, where CBC emerged as the highest bidder, purchasing the stock for P20,000. CBC was issued a certificate of sale.

Meanwhile, VGCCI sent several demand letters to Calapatia for his growing overdue amounts and published a notice of auction sale for December 10, 1986, which included Calapatia's stock. After the auction, VGCCI informed Calapatia that his membership was terminated.

On May 5, 1989, CBC notified VGCCI of its ownership of Stock Certificate No. 1219 and requested issuance of a new certificate, but VGCCI refused, claiming the stock was resold at a 1986 auction due to delinquency.

Subsequently, CBC sought nullification of the December 1986 auction. Regional Trial Court (RTC) Makati dismissed CBC's complaint on jurisdictional grounds, leading CBC to file a complaint with the Securities and Exchange Commission (SEC) on September 20, 1990.

On January 3, 1992, SEC hearing officer Manuel P. Perea ruled in favor of VGCCI. CBC's appeal to the SEC en banc resulted in a reversal on June 4, 1993, declaring the December 1986 auction null and void and ordered VGCCI to issue a new stock certificate to CBC.

VGCCI's motion for reconsideration was denied, prompting VGCCI to appeal to the Court of Appeals, which nullified the SEC orders for lack of jurisdiction and dismissed CBC's original complaint.

****Issues:****

1. Whether the Court of Appeals erred in nullifying the SEC en banc orders for lack of

jurisdiction.

2. Whether CBC is the lawful owner of Membership Certificate No. 1219.

Court's Decision:

1. **Jurisdictional Issue:**

- The Supreme Court held that the SEC had jurisdiction over the case under P.D. No. 902-A, which includes jurisdiction over intra-corporate disputes. The controversy between CBC and VGCCI qualifies as such a dispute because it involves the proper application of VGCCI's by-laws relating to stock ownership and membership rights. As CBC emerged as the highest bidder in the foreclosure auction, it became a stockholder, thereby making the dispute intra-corporate.

2. **Ownership of the Stock Certificate:**

- **Pledge Agreement Validity:**

- The Supreme Court upheld the validity of the pledge agreement. Despite VGCCI's contention that the agreement lacked consideration since the loan was obtained later, the agreement explicitly covered future advancements.

- **Interpretation of By-laws:**

- The court found VGCCI wrong in selling the stock without informing CBC, violating its right as a pledgee. VGCCI's actions, especially post-foreclosure notifications, indicated bad faith. Additionally, CBC's knowledge of VGCCI's by-laws at the time of foreclosure should not affect the pledgee's rights established at the agreement execution.

- **Applicability of Art. 2099 Civil Code:**

- The court determined VGCCI misinterpreted Art. 2099, which concerns buena fide diligence in maintaining pledged items. This provision did not obligate CBC to know VGCCI's restrictive by-laws at the pledge's creation.

- **Sec. 63 Corporation Code:**

- Referring to unpaid subscriptions, not dues, this provision didn't cover Calapatia's unpaid monthly dues, invalidating VGCCI's claim.

The Supreme Court granted CBC's petition, reversed the Court of Appeals' decision, and upheld the SEC en banc order demanding VGCCI to issue a share certificate to CBC.

Doctrine:

- P.D. No. 902-A: Jurisdiction over intra-corporate controversies, including board decisions, corporate partnerships, and member relations.
- Acknowledged pledge agreements cover future advancements.
- SEC jurisdiction affirmed for disputes necessitating specialized knowledge like by-law interpretations.

****Class Notes:****

- ****Intra-corporate dispute:**** disputes among corporation members and corporation on corporate matters, adjudicated by the SEC.
- ****Pledge Agreement:**** Can secure current and future obligations unless explicitly restricted.
- ****Corporation By-laws:**** Binding to shareholders and involved parties with actual or constructive knowledge.
- ****Civil Code Article 2087:**** Collateral serves as security, transferable upon principal obligation non-payment.
- ****Corporation Code Section 63:**** Refers to unpaid subscriptions, not other dues.

****Historical Background:****

- The case illustrates the evolving regulatory environment managed by the SEC concerning corporate disputes in the Philippines and highlights administrative and judicial measures toward corporate governance.

****Key Elements/Concepts for Students:****

1. ****SEC Jurisdiction:**** Intra-corporate affairs, enforcement specialist's rule.
2. ****By-law Binding:**** Knowledge necessity principle.
3. ****Pledge Agreement Validity:**** Covers future advancements.
4. ****Stock Transfer Rules:**** Unpaid claims in the Corporation Code.

This guide addresses fundamental principles in corporate dispute resolutions and specialized administrative jurisdiction, demonstrating how procedural and substantive issues interlink.