

SECOND DIVISION

[G.R. No. 165744, August 11, 2008]

OSCAR C. REYES, PETITIONER, VS. HON. REGIONAL TRIAL COURT OF MAKATI, BRANCH 142, ZENITH INSURANCE CORPORATION, AND RODRIGO C. REYES, RESPONDENTS.

D E C I S I O N

BRION, J.:

This Petition for Review on *Certiorari* under Rule 45 of the Rules of Court seeks to set aside the Decision of the Court of Appeals (CA)^[1] promulgated on May 26, 2004 in CA-G.R. SP No. 74970. The CA Decision affirmed the Order of the Regional Trial Court (RTC), Branch 142, Makati City dated November 29, 2002^[2] in Civil Case No. 00-1553 (entitled "Accounting of All Corporate Funds and Assets, and Damages") which denied petitioner Oscar C. Reyes' (*Oscar*) Motion to Declare Complaint as Nuisance or Harassment Suit.

BACKGROUND FACTS

Oscar and private respondent Rodrigo C. Reyes (*Rodrigo*) are two of the four children of the spouses Pedro and Anastacia Reyes. Pedro, Anastacia, Oscar, and Rodrigo each owned shares of stock of Zenith Insurance Corporation (*Zenith*), a domestic corporation established by their family. Pedro died in 1964, while Anastacia died in 1993. Although Pedro's estate was judicially partitioned among his heirs sometime in the 1970s, no similar settlement and partition appear to have been made with Anastacia's estate, which included her shareholdings in Zenith. As of June 30, 1990, Anastacia owned 136,598 shares of Zenith; Oscar and Rodrigo owned 8,715,637 and 4,250 shares, respectively.^[3]

On May 9, 2000, Zenith and Rodrigo filed a complaint^[4] with the Securities and Exchange Commission (SEC) against Oscar, docketed as SEC Case No. 05-00-6615. The complaint stated that it is "*a derivative suit initiated and filed by the complainant Rodrigo C. Reyes to obtain an accounting of the funds and assets of ZENITH INSURANCE CORPORATION which are now or formerly in the control, custody, and/or possession of respondent [herein petitioner Oscar] and to determine the shares of stock of deceased spouses Pedro and Anastacia Reyes that were arbitrarily and fraudulently appropriated [by Oscar] for himself [and] which were not collated and taken into account in the partition, distribution, and/or settlement of the estate of the deceased spouses, for which he should be ordered to account for all the income from the time he took these shares of stock, and should now deliver to his brothers and sisters their just and respective shares.*"

^[5] [Emphasis supplied.]

In his Answer with Counterclaim,^[6] Oscar denied the charge that he illegally

acquired the shares of Anastacia Reyes. He asserted, as a defense, that he purchased the subject shares with his own funds from the unissued stocks of Zenith, and that the suit is not a *bona fide* derivative suit because the requisites therefor have not been complied with. He thus questioned the SEC's jurisdiction to entertain the complaint because it pertains to the settlement of the estate of Anastacia Reyes.

When Republic Act (R.A.) No. 8799^[7] took effect, the SEC's exclusive and original jurisdiction over cases enumerated in Section 5 of Presidential Decree (P.D.) No. 902-A was transferred to the RTC designated as a special commercial court.^[8] The records of Rodrigo's SEC case were thus turned over to the RTC, Branch 142, Makati, and docketed as Civil Case No. 00-1553.

On October 22, 2002, Oscar filed a Motion to Declare Complaint as Nuisance or Harassment Suit.^[9] He claimed that the complaint is a mere nuisance or harassment suit and should, according to the Interim Rules of Procedure for Intra-Corporate Controversies, be dismissed; and that it is not a *bona fide* derivative suit as it partakes of the nature of a petition for the settlement of estate of the deceased Anastacia that is outside the jurisdiction of a special commercial court. The RTC, in its Order dated November 29, 2002 (*RTC Order*), denied the motion in part and declared:

A close reading of the Complaint disclosed the presence of two (2) causes of action, namely: a) a derivative suit for accounting of the funds and assets of the corporation which are in the control, custody, and/or possession of the respondent [herein petitioner Oscar] with prayer to appoint a management committee; and b) an action for determination of the shares of stock of deceased spouses Pedro and Anastacia Reyes allegedly taken by respondent, its accounting and the corresponding delivery of these shares to the parties' brothers and sisters. The latter is not a derivative suit and should properly be threshed out in a petition for settlement of estate.

Accordingly, the motion is denied. However, only the derivative suit consisting of the first cause of action will be taken cognizance of by this Court.^[10]

Oscar thereupon went to the CA on a petition for *certiorari*, prohibition, and *mandamus*^[11] and prayed that the RTC Order be annulled and set aside and that the trial court be prohibited from continuing with the proceedings. The appellate court affirmed the RTC Order and denied the petition in its Decision dated May 26, 2004. It likewise denied Oscar's motion for reconsideration in a Resolution dated October 21, 2004.

Petitioner now comes before us on appeal through a petition for review on *certiorari* under Rule 45 of the Rules of Court.

ASSIGNMENT OF ERRORS

Petitioner Oscar presents the following points as conclusions the CA should have made:

1. that the complaint is a mere nuisance or harassment suit that should be dismissed under the Interim Rules of Procedure of Intra-

- Corporate Controversies; and
2. that the complaint is not a *bona fide* derivative suit but is in fact in the nature of a petition for settlement of estate; hence, it is outside the jurisdiction of the RTC acting as a special commercial court.

Accordingly, he prays for the setting aside and annulment of the CA decision and resolution, and the dismissal of Rodrigo's complaint before the RTC.

THE COURT'S RULING

We find the petition meritorious.

The core question for our determination is whether the trial court, sitting as a special commercial court, has jurisdiction over the subject matter of Rodrigo's complaint. To resolve it, we rely on the judicial principle that "jurisdiction over the subject matter of a case is conferred by law and is determined by the allegations of the complaint, irrespective of whether the plaintiff is entitled to all or some of the claims asserted therein."^[12]

Jurisdiction of Special Commercial Courts

P.D. No. 902-A enumerates the cases over which the SEC (now the RTC acting as a special commercial court) exercises exclusive jurisdiction:

SECTION 5. In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnership, 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 stockholders, 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 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; and
- c) Controversies in the election or appointment of directors, trustees, officers, or managers of such corporations, partnerships, or associations.

The allegations set forth in Rodrigo's complaint principally invoke Section 5, paragraphs (a) and (b) above as basis for the exercise of the RTC's special court jurisdiction. Our focus in examining the allegations of the complaint shall therefore

be on these two provisions.

Fraudulent Devices and Schemes

The rule is that a complaint must contain a plain, concise, and direct statement of the ultimate facts constituting the plaintiff's cause of action and must specify the relief sought.^[13] Section 5, Rule 8 of the Revised Rules of Court provides that **in all averments of fraud or mistake, the circumstances constituting fraud or mistake must be stated with particularity.**^[14] These rules find specific application to Section 5(a) of P.D. No. 902-A which speaks of corporate devices or schemes that amount to fraud or misrepresentation detrimental to the public and/or to the stockholders.

In an attempt to hold Oscar responsible for corporate fraud, Rodrigo alleged in the complaint the following:

3. This is a **complaint...to determine the shares of stock of the deceased spouses Pedro and Anastacia Reyes that were arbitrarily and fraudulently appropriated for himself [herein petitioner Oscar]** which were not collated and taken into account in the partition, distribution, and/or settlement of the estate of the deceased Spouses Pedro and Anastacia Reyes, for which he should be ordered to account for all the income from the time he took these shares of stock, and should now deliver to his brothers and sisters their just and respective shares with the corresponding equivalent amount of P7,099,934.82 plus interest thereon from 1978 representing his obligations to the Associated Citizens' Bank that was paid for his account by his late mother, Anastacia C. Reyes. This amount was not collated or taken into account in the partition or distribution of the estate of their late mother, Anastacia C. Reyes.

3.1. **Respondent Oscar C. Reyes, through other schemes of fraud including misrepresentation, unilaterally, and for his own benefit, capriciously transferred and took possession and control of the management of Zenith Insurance Corporation** which is considered as a family corporation, and other properties and businesses belonging to Spouses Pedro and Anastacia Reyes.

x x x x

4.1. During the increase of capitalization of Zenith Insurance Corporation, sometime in 1968, the property covered by TCT No. 225324 was illegally and fraudulently used by respondent as a collateral.

x x x x

5. The complainant Rodrigo C. Reyes discovered that **by some manipulative scheme, the shareholdings of their**

deceased mother, Doña Anastacia C. Reyes, shares of stocks and [sic] valued in the corporate books at P7,699,934.28, more or less, excluding interest and/or dividends, had been transferred solely in the name of respondent. By such fraudulent manipulations and misrepresentation, the shareholdings of said respondent Oscar C. Reyes abruptly increased to P8,715,637.00 [sic] and becomes [sic] the majority stockholder of Zenith Insurance Corporation, which portion of said shares must be distributed equally amongst the brothers and sisters of the respondent Oscar C. Reyes including the complainant herein.

x x x x

9.1 The **shareholdings of deceased** Spouses Pedro Reyes and **Anastacia C. Reyes valued at P7,099,934.28 were illegally and fraudulently transferred solely to the respondent's [herein petitioner Oscar] name and installed himself as a majority stockholder of Zenith Insurance Corporation [and] thereby deprived his brothers and sisters of their respective equal shares thereof including complainant hereto.**

x x x x

10.1 **By refusal of the respondent to account of his [sic] shareholdings in the company, he illegally and fraudulently transferred solely in his name wherein [sic] the shares of stock of the deceased Anastacia C. Reyes [which] must be properly collated and/or distributed equally amongst the children, including the complainant Rodrigo C. Reyes herein, to their damage and prejudice.**

x x x x

11.1 By continuous refusal of the respondent to account of his [sic] shareholding with Zenith Insurance Corporation[,], particularly the number of shares of stocks illegally and fraudulently transferred to him from their deceased parents Sps. Pedro and Anastacia Reyes[,], which are all subject for collation and/or partition in equal shares among their children. [Emphasis supplied.]

Allegations of deceit, machination, false pretenses, misrepresentation, and threats are largely conclusions of law that, without supporting statements of the facts to which the allegations of fraud refer, do not sufficiently state an effective cause of action.^[15] The late Justice Jose Feria, a noted authority in Remedial Law, declared that fraud and mistake are required to be averred with particularity in order to enable the opposing party to controvert the particular facts allegedly constituting such fraud or mistake.^[16]