



Republic of the Philippines
SUPREME COURT
Manila

SECOND DIVISION

**CARLOS S. PALANCA IV and
COGNATIO HOLDINGS, INC.,**

Petitioners,

- versus -

RCBC SECURITIES, INC.,

Respondent.

G.R. No. 241905

Present:

PERLAS-BERNABE, J.,

Chairperson,

REYES, A., JR.,

HERNANDO,

INTING, and

DELOS SANTOS, JJ.

Promulgated:

11 MAR 2020

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DECISION

REYES, A., JR., J.:

The present Petition for Review on *Certiorari* under Rule 45 of the Revised Rules of Court assails the Decision¹ dated October 27, 2017 and the Resolution² dated September 5, 2018 of the Court of Appeals (CA) in CA G.R. SP No. 148920, which reversed the *en banc* Decision dated December 6, 2016 of the Securities and Exchange Commission (SEC), and reinstated the Letter-Decision dated December 4, 2014 and the Resolution dated June 1, 2015 of the Capital Markets Integrity Corporation (CMIC), which denied the Requests for Assistance filed by petitioners Carlos S. Palanca IV (Palanca) and Cognatio Holdings, Inc. (Cognato), in connection with the

¹ Special 13th Division, composed of Associate Justices Edwin D. Sorongon (*ponente*), Jane Aurora C. Lantion (acting chairperson), and Maria Filomena D. Singh; *rollo* (vol. 1), pp. 46-70.

² Former Special 13th Division, composed of Associate Justices Edwin D. Sorongon (*ponente*), Jane Aurora C. Lantion (acting chairperson), and Maria Filomena D. Singh; *id.* at 72-75.

Reyes

release of certain information concerning alleged fraudulent transactions and other irregularities in their trading accounts with respondent RCBC Securities, Inc. (RSI).

Factual Antecedents

RSI is a Philippine corporation engaged in the business of securities brokerage and trading. Among its clients are Palanca and Cognatio. Sometime in December 2011, RSI discovered that one of its sales agents, one Mary Grace Valbuena (Valbuena), was involved in questionable securities trading transactions. RSI opened its own investigation into the matter, which led to Valbuena's termination from RSI. In turn, on March 12, 2012, the Market Regulation Department of the Philippine Stock Exchange (PSE-MRD) imposed a penalty of ₱5,000,000.00 on RSI for violation of securities laws and rules³ relative to the transactions involving Valbuena.

As a result, RSI filed several criminal and civil cases against Valbuena. RSI also processed the claims of its clients who were prejudiced by Valbuena's questionable dealings. Among those clients who claimed to have been defrauded by Valbuena were petitioners. However, petitioners' claim was rejected as baseless by RSI.

Aggrieved by the rejection of their claim, on June 5, 2012, petitioners sent RSI demand letters demanding the return of their remaining cash balances and stock positions. RSI responded by reiterating its earlier finding that it has no outstanding liabilities and/or unpaid claims in favor of the petitioners. RSI further argued that Palanca, as a seasoned trader and president of Cognatio, abetted Valbuena's deviations from the normal trading procedure in the handling of petitioners' accounts; and that as such, Palanca should have been more vigilant in dealing with Valbuena.⁴ Undaunted, petitioners each filed separate cases⁵ for Specific Performance with Damages against RSI with the Regional Trial Court (RTC) of Makati City. The Makati City RTC dismissed both cases in orders dated August 1, 2013 and April 30, 2014, respectively. Palanca and Cognatio filed their respective motions for reconsideration, but these were denied. They then

³ RSI was found guilty of violating the following: Article V, Section 2, par. b of the Amended Market Regulation Rules in relation to SRC Rule 30.2-6 on Supervision; Article V, Section 1, par. b of the Amended Market Regulation Rules in relation to SRC Rule 30.2-1 on Ethical Standards; Article V, Section 7 of the Amended Market Regulation Rules in relation to SRC Rule 30.2-6 on Suitability Rule and Article VI, Section 3 of the Amended Market Regulation Rules in relation to SRC Rule 30.2-3, par. E on Discretionary Accounts; Article IV of the Amended Market Regulation Rules or Code of Conduct and Professional Ethics for Traders and Salesmen; SRC Rule 34.1-2 on Segregation of Functions (Chinese Wall); and Article VI, Section 10 of the Amended Market Regulation Rules in relation to SRC Rule 24.2-2 on Short Sales; *id.* at 377.

⁴ *Id.* at 407.

⁵ Palanca filed a case on October 12, 2012 against RSI, RCBC Capital Corporation, Rizal Commercial Banking Corporation, Diosdado C. Salang, Jr., Rhodora A. Alberto, and Mary Grace Valbuena, which was docketed as Civil Case No. 12-1001; while Cognatio filed a case against the same respondents on December 17, 2012, which was docketed as Civil Case No. 12-1220; *rollo* (vol. 2), pp. 455-456.

Meyer

elevated the matter before this Court *via* petitions for review on *certiorari*, which were respectively docketed as G.R. No. 210107 and G.R. No. 212600. G.R. No. 210107 was denied for violating the hierarchy of courts,⁶ and entry of judgment was issued therein on March 5, 2015,⁷ after the denial of Palanca's motion for reconsideration on August 18, 2014.⁸ G.R. No. 212600 was likewise denied, for being a wrong mode of appeal;⁹ this denial became final and executory on February 12, 2015,¹⁰ after the Court denied Cognatio's motion for reconsideration on December 10, 2014.¹¹

Meanwhile, on December 20, 2013, Cognatio filed with the SEC a complaint for revocation or suspension of license and registration against Valbuena and RSI. On August 14, 2014, Palanca and Cognatio sent Requests for Assistance to the PSE, seeking the PSE's assistance to direct RSI to furnish them with copies of the following documents: a) confirmation slips of alleged transactions as appearing in the Statement of Account (SOA) provided by RSI, with information as to who received the same; b) application or utilization of deposits made by petitioners to RSI's bank account for their buying transactions which do not appear in the SOA provided by RSI; c) sources of deposits to petitioners' accounts as appearing in the SOA provided by RSI, which are alleged not to have come from petitioners; and d) the identity of the persons who received the monies withdrawn from petitioners' trading accounts based on the SOA provided by RSI, and the identity of the persons who gave instructions for such withdrawals.¹² The PSE referred the requests to the CMIC, as the bourse's independent and self-regulatory audit, surveillance, and compliance arm.¹³

Upon Order of the CMIC, RSI submitted its letter-comment dated September 26, 2014 opposing the petitioners' requests for assistance. RSI argued that the requests for assistance filed by petitioners were actually written complaints which should have been filed within the six-month reglementary period provided for under the CMIC Rules. RSI also asserted that petitioners were guilty of deliberate forum shopping because the reliefs sought by their requests for assistance were similar to the reliefs sought by petitioners in the specific performance cases before the Makati City RTC which were still pending with that court at that time. In their letter-reply dated October 17, 2014, petitioners reiterated their stand that they are simply seeking assistance before the Makati City RTC for the release of the requested documents, and that such relief is different from the reliefs sought in their pending cases for specific performance.

⁶ Resolution of the Supreme Court dated March 26, 2014; *id.* at 628-629.

⁷ *Id.* at 605-606.

⁸ Resolution of the Supreme Court dated August 18, 2014; *id.* at 603-604.

⁹ Resolution of the Supreme Court dated August 6, 2014; *rollo* (vol. 1), p. 119.

¹⁰ *Rollo* (vol. 2), pp. 719-720.

¹¹ *Id.* at 718.

¹² *Rollo* (vol. 1), p. 98.

¹³ CMIC Rules, Article I, Section 3; Capital Markets Integrity Corporation, *About CMIC: Powers and Functions*, CMIC, <http://www.emic.com.ph/main/aboutUs.html#> (last visited August 29, 2019).

Meyer

Ruling of the CMIC

After a further exchange of pleadings, on December 4, 2014, the CMIC rendered its Decision¹⁴ denying petitioners' requests for assistance. On the issue of forum shopping, the CMIC held that the Requests for Assistance did not constitute forum shopping. According to the CMIC, the Requests for Assistance are separate and distinct from the specific performance cases and the earlier SEC complaint filed by Palanca and Cognatio, because petitioners sought different reliefs in each case; and that neither in the specific performance cases nor in the SEC complaint did petitioners seek assistance from CMIC to compel RSI to deliver the requested documents and information. According to the CMIC, it cannot see how the grant of the relief sought by the Requests would interfere with, or amount to *res judicata* in, the specific performance cases.

On the issue of prescription, the CMIC held that the Requests were filed beyond the six-month reglementary period for filing a written complaint with the CMIC as prescribed under its Rules, and that these had therefore, prescribed. It characterized the Requests as written complaints that fall under Section 4, Article II of the CMIC Rules, and not just requests for assistance, since a careful reading thereof showed that they are in the nature of written complaints filed directly with the CMIC by a customer, trading participant, or aggrieved party for an alleged violation of the Securities Laws or the CMIC Rules. The CMIC further said that petitioners' requests for assistance are precisely grounded on the alleged violations by RSI of pertinent securities laws which cannot be made separate from the requests for assistance, which are resultant reliefs from the purported violations.

On the issue of *res judicata*, the CMIC ruled that the Requests were barred by *res judicata*, considering that the allegations contained therein have already been resolved in the 2012 PSE-MRD ruling. Specifically, the CMIC noted that "(a) the resolution issued by then PSE-MRD¹⁵ is already final and, as a matter of fact, was already executed against RSI; (b) the PSE-MRD had the authority to penalize RSI for its violation of the above-mentioned rules; (c) the resolution was on the merits of the case; and (d) there is a *substantial* similarity in the issues presented, the parties involved, and the reliefs sought *vis-à-vis* the resolution previously issued by the PSE-MRD and the instant requests for assistance."¹⁶

¹⁴ *Rollo* (vol. 1), pp. 369-379. The Decision was signed by CMIC President Cornelio C. Gison.

¹⁵ The PSE-MRD is the predecessor entity of the CMIC. Capital Markets Integrity Corporation, *About CMIC: Incorporation of CMIC*, CMIC, <http://www.cmic.com.ph/main/aboutUs.html> (last visited August 29, 2019).

¹⁶ *Rollo* (vol. 1), p. 378.

Meyer

Petitioners sought reconsideration of the foregoing in a letter dated December 15, 2014.¹⁷ But on June 1, 2015, the CMIC denied petitioners' motion through its Resolution No. 11, series of 2015.¹⁸ Petitioners thus appealed to the SEC, in accordance with SEC Memorandum Circular No. 10, series of 2010.¹⁹

Ruling of the SEC

On December 6, 2016, the SEC *en banc* rendered its Decision²⁰ on the case. The SEC reversed the CMIC and directed RSI to produce the documents sought by petitioners in their Requests. Subsuming the issues to whether or not Palanca and Cognatio are entitled to the requested records, the SEC *en banc* ruled in the affirmative and held that the Requests are not covered by the six-month prescriptive period under Article II, Section 4 of the CMIC Rules because said Requests cannot come within the purview of the term "investigation," as contemplated in the aforementioned provision; and that the Requests filed by petitioners are plain requests meant to access particular records and did not include a prayer for RSI to conduct a search or inquiry into any "trading-related irregularities or other violations of the securities laws;" and that the allegations of trading irregularities made therein were only made to provide factual context.

The SEC *en banc* moreover ruled that instead of treating the Requests as complaints under Article II, Section 4, the CMIC should have treated them as requests under Article IX, Section 1 of the CMIC Rules, which requires trading participants to "promptly and readily provide a comprehensible and certified true printed and/or electronic copy of the books and records or any part thereof" upon request by the CMIC or by any other party who may be legally entitled or authorized to access such books or records; that given that CMIC has the power to order RSI to produce the requested records, CMIC should have exercised such power instead of denying petitioners' requests on the grounds of prescription and *res judicata*, in view of the CMIC's role of reinforcing investor confidence in the equity securities market; and that petitioners are legally entitled to access the requested records in view of their brokerage relationship with RSI. Citing jurisprudence, the SEC explained that a brokerage relationship is essentially a contract of agency; and that therefore, under the law, RSI was obligated to make a full disclosure of all transactions and material facts relevant to the agency, *i.e.*, the securities trading agreement it had with petitioners.

¹⁷ *Rollo* (vol. 1), pp. 291-302.

¹⁸ *Id.* at 303-304.

¹⁹ Entitled "Rules of Procedure on Appeals from Decisions from Self-Regulatory Organizations."

²⁰ *Rollo* (vol. 1), pp. 405-413. The decision was signed by Commissioners Manuel Huberto B. Gaite, Antonieta F. Ibe, Ephyro Luis B. Amatong, and Blas James G. Viterbo. Chairperson Teresita J. Herbosa inhibited from the case.



The SEC furthermore held that the disclosure requirement under Article IX, Section 1 of the CMIC Rules is substantially reproduced in Rule 52.1.1.13 of the 2015 Implementing Rules and Regulations (IRR) of the Securities Regulation Code (SRC); that under that provision, the parties entitled to request information are the SEC, the PSE, and “any other party who may be legally entitled or authorized to access such books or records;” and that the SEC has authority, independent of the CMIC, to direct brokers and dealers to promptly and readily produce their books and records, under pain of suspension of registration; hence the SEC may order RSI to produce the information requested by petitioners.

Ruling of the Court of Appeals

On January 12, 2017, RSI filed a petition for review with the CA. After an exchange of pleadings, the CA rendered the assailed Decision in favor of RSI. Essentially concurring with the position of the CMIC, the appellate court disposed of the prescription issue in this manner:

A careful reading of the [Requests] discloses that the same are in the nature of written complaints as defined in Section 2, Article 1 of the CMIC Rules which is any written statement of a customer or any other interested party “*alleging a grievance involving the business of a Trading Participant or issuer or a violation of the Securities Laws by a Trading Participant or Issuer.*” The contents of the [Requests] clearly show that they do not merely operate as mere requests, but are, in fact, their supposed causes of action to compel [RSI] to produce certain documents which maybe the subject of the alleged violation of the Securities Laws. Allegations in a pleading determine the nature of an action and not the designation thereof by the parties. Even [petitioners’] Letter-Replies filed with the CMIC show that their principal inducement in filing their [Requests] is to compel the CMIC to investigate [RSI] for supposed violations of the CMIC Rules and Securities laws, alleging, among others, that petitioner is supposedly involved in a “*systemic anomaly that has adversely affected many individuals,*” and supposed settlements that were purportedly the “*direct consequences of violations of the Securities Regulations [sic] Code.*”

In fact, the CMIC found [petitioners’] Requests are grounded on – or in view of – the alleged violations by [RSI] of pertinent securities laws. As such, the alleged securities laws violations cannot be made separate from the requests for assistance, which are resultant reliefs from the purported violations. Stated otherwise, these [Requests] are in the nature of written complaints, as intended by the CMIC Rules, not as mere requests for assistance.

In their [Requests], [petitioners] specifically alleged the following: (a) most of the purported transactions reflected in [RSI]’s SOAs were not authorized; (b) no trade confirmation slips for the supposed genuine transactions were received; (c) the alleged transactions are questionable, considering that most, if not all of them, were made at a loss; (d) most of the buying trades made through Ms. Valbuena, which were paid by

Meyer

deposits to [RSI]'s account, did not appear in its SOAs; (e) [RSI]'s SOA's did not tally with their actual stock and cash positions; and (f) most of the deposits for credit to its trading account do not appear in [RSI]'s SOA.

The foregoing is a litany of the alleged irregularities committed by the [RSI] which [petitioners] would like to be investigated by CMIC. True, the letters do not actually asked [*sic*] for an investigation to be conducted by CMIC for any trading-related complaints or any violation of Securities Laws. However, the tenor of the letters is actually towards the process of obtaining information or collecting facts regarding trading-related irregularities covering securities laws violation which in effect is already a part and parcel of investigation. Obviously, the purpose is to build a case against [RSI] for alleged trading-related irregularity under the guise of a letter [for] assistance. Thus, the [Requests] are viewed as a whole, a complaint for investigation.

Since these [Requests] are then Letter-Complaints within the meaning of Section 2, Article I of the CMIC Rules, they are governed by Section 4, Article II of the CMIC Rules which expressly limits the period within which to file a complaint with the CMIC to six (6) months from knowledge of the commission of the alleged trading irregularity or alleged violation of the Securities Laws. Thus, given that [petitioners] admittedly discovered the alleged anomalies involving their trading accounts as early as December 28, 2011, they only had six (6) months therefrom, or until June 28, 2012, within which to file a written complaint with the CMIC. But [petitioners] failed to seasonably exercise this remedy and instead opted to file the requests for assistance on August 14, 2014, or more than two (2) years beyond the prescriptive period under the CMIC Rules.²¹

As regards the issue on the existence of *res judicata*, the CA again adopted the position of the CMIC, *viz.*:

Again, We subscribe to CMIC's finding that the issues in the Letter-Complaints have already been ruled upon by its predecessor, the PSE-MRD, as such the claim of the respondents are barred by *res judicata*.

It must be recalled that, on March 12, 2012, the then Market Regulation Department of the PSE (PSE-MRD) imposed a penalty amounting to PhP5,000,000.00 against [RSI] for its violation of a number of securities laws relative to the transactions involving its former agent Ms. Valbuena, among other issues, *viz.*:

Upon evaluation of your books and records, documents presented during the examination, our discussion during our exit conference dated 1 February 2012 and your letters dated 09 March 2012 and 16 February 2012, the Market Regulation Division [MRD] hereby imposes upon RCBC Securities, Inc. [RSI] a total of five million pesos (P5,000,000.0) monetary penalty due to RSI's excessive violations of the following provisions of Securities Regulation Code [RSC], its implementing rules

²¹ Id. at 58-59.

Meyer

and regulations (the "SRC Rules") and the Amended Market Regulation Rules xxx:

- a. Article V, Section 2 par. B of the Amended Market Regulation Rules in relation to SRC Rule 30.2-6 on Supervision;*
- b. Article V, Section 1 par. B of the Amended Market Regulation Rules in relation to SRC Rule 30.2-1 on Ethical Standards Rule;*
- c. Article V, Section 7 of the Amended Market Regulation in relation to SRC Rule 30.2-6 on Suitability Rule and Article VI, Section 3 of the Amended Market Regulation Rules in relation to SRC Rule 30.2-3 par. E on Discretionary Accounts;*
- d. Article IV of the Amended Market Regulation Rules or Code of Conduct and Professional Ethics for Traders and Salesmen;*
- e. SRC Rule 34.1-2 Segregation [sic] of Functions (Chinese Wall); and*
- f. Article VI, Section 10 of the Amended Market Regulation Rules in relation to SRC Rule 24.2-2 on Short Sales[.]*

x x x x

RSI also [sic] hereby ordered to amend its internal control procedures to include measures to prevent similar type of unauthorized transactions from occurring again and to submit its amended internal control procedures xxx.

Based on the above set of facts, it can be concluded that the issues pertinent to, or are contained, in the letters dated August 14, 2014 were already ruled upon by the then PSE-MRD, CMIC's predecessor. Accordingly, the claims of [petitioners] are barred by *res judicata* for the following reasons: (a) the resolution issued by then PSE-MRD is already final and, as a matter of fact, was already executed against [RSI]; (b) the PSE-[MRD] had the authority to penalize [RSI] for its violation of the above-mentioned rules; (c) the resolution was on the merits of the case; and (d) there is a substantial similarity in the issues presented, the parties involved, and the reliefs sought as to the resolution previously issued by the PSE-MRD and the instant [Requests]. Moreover, the documents purportedly being sought by [petitioners] through the [Requests] were already the subject of the RTC Cases, which had already been dismissed with finality by the Supreme Court. Clearly, the [Requests] do not merely request for assistance to produce documents but in fact, demand that RSI produce evidence in support of [petitioners]' causes of action in the dismissed RTC Cases. Moreover, in asking for documents to show the application or utilization of their deposits, the sources of the deposits to their accounts and the persons who received the monies withdrawn from their accounts and who gave instructions for such withdrawals, [petitioners] are, in effect, asking the CMIC to direct [RSI] to justify its

Meyer

refusal to pay their claims, an issue that is clearly already in the RTC Cases that were dismissed.²² (Italics in the original)

Finally, on the issue of forum shopping, the appellate court adopted and cited RSI's position, as set forth in its memorandum, thus:

First, [petitioners]' disguised attempts to resuscitate long-dismissed cases through the expedient refashioning of the reliefs they pray for in different actions precisely violates the prohibition against splitting a cause of action, or filing multiple cases based on the same cause of action, but with different prayers.

[Petitioners]' claims against RSI in the RTC were based, among others, on an unproven theory of agency under Article 1891 of the Civil Code. In their [Requests] before the CMIC, [petitioners] again alluded to their supposed agency relationship with RSI to justify their purported requests for assistance to obtain records. It is unmistakable, therefore, that the causes of action in the [Requests] were adjuncts to the main cause of action of agency in RTC Cases. A party to a civil action cannot be permitted to split demands and seek from different forum for reliefs that are derived from the same causes of action. Besides, "Section 3, Rule 2 of the 1997 Rules of Civil Procedure states that a party may not institute more than one suit for a single cause of action and, if two or more suits are instituted on the basis of the same cause of action, the filing of one on a judgment upon the merits in any one is available as ground for the dismissal of the other or others. A party will not be permitted to split up a single cause of action and make it a basis for several suits. A party seeking to enforce a claim must present to the court by the pleadings or proofs or both, all the grounds upon which he expects a judgment in his favor. He is not at liberty to split up his demands and prosecute it by piecemeal, or present only a portion of the grounds upon which special relief is sought, and leave the rest to be presented in a second suit if the first fails. The law does not permit the owner of a single or entire cause of action or an entire or indivisible demand to divide and split the cause or demand so as to make it the subject of several actions. The whole cause must be determined in one action."

What we have here are supposedly different prayers of actions in various fora involving the same set of facts, parties and issues. [Petitioners]' attempt to distinguish these cases by superficial differentiation of their prayers simply amounts to the act of splitting causes of action. As previously stated, splitting a cause of action is among the methods by which forum shopping is committed. In attempting to "request assistance" to obtain records from the CMIC based on a theory of agency, which is merely a derivative from the RTC cases, [petitioners] effectively split their causes of action and violated the prohibition against forum shopping.

Second, these are Letter-Complaints under the guise of Requests for Assistance because they seek to subject [RSI] to an investigation that would result in disciplinary sanctions, including production of trading documents. In fact, these requests came about only after [petitioners]

²² Id. at 62-64.

Meyer

instituted cases before the trial court to hold [RSI] liable for the trade transactions purportedly made without their authorization based, among others, on Article 1891 of the Civil Code. Incidentally these cases were all dismissed. And as we have already mentioned earlier, these cases were brought straight to the Supreme Court by the [petitioners], but still to no avail. The dismissals eventually became final and executory. After that, [petitioners] filed these Requests for Assistance with the CMIC requesting it “to exercise its administrative powers as a self-regulatory organization.” CMIC treated their Letter Requests as Letter-Complaints and dismissed the same on the grounds of prescription and *res judicata*. Unperturbed, [petitioners] went up on appeal to the SEC *En Banc* similarly based, among others, on Article 1891 of the Civil Code, in another attempt to procure a favorable judgment.

More importantly, the [December 2013] Case [filed by Cognatio] remains pending with the SEC. It is very clear that [petitioners] are likewise invoking the administrative powers of the SEC against [RSI], the same remedies in their request for assistance with CMIC. Essentially, [petitioners] asked two (2) different fora to exercise their administrative powers at the same time against the same entity based on the same facts and circumstances.²³ (Italics in the original; citations omitted)

Hence the present petition for review.²⁴

The Issues

Four errors are raised in the instant petition.

1. THE APPELLATE COURT SERIOUSLY ERRED IN HOLDING THAT THE REQUESTS WERE IN THE NATURE OF WRITTEN COMPLAINTS.
2. THE APPELLATE COURT SERIOUSLY ERRED IN HOLDING THAT THE REQUESTS WERE FILED BEYOND THE APPLICABLE PRESCRIPTIVE PERIOD.
3. THE APPELLATE COURT SERIOUSLY ERRED IN HOLDING THAT THE FILING OF THE REQUESTS WAS BARRED BY RES JUDICATA.
4. THE APPELLATE COURT SERIOUSLY ERRED IN HOLDING THAT PETITIONERS COMMITTED DELIBERATE FORUM-SHOPPING.²⁵

The foregoing errors can be condensed into three core issues, namely, the proper characterization of the requests and the proper period for filing thereof under the CMIC Rules; the applicability of *res judicata* as a bar to the filing of the requests in view of the PSE-MRD ruling and the other cases

²³ Id. at 64-66.

²⁴ Id. at 11-44.

²⁵ Id. at 20.

Meyes

filed by petitioners before the trial courts and the SEC; and the existence of deliberate forum shopping.

Ruling of the Court

A. Preliminary considerations

The Court, in this petition, finds itself wedged between the substantive law of securities regulation and the procedural aspect of its enforcement. To shine a brighter light on the issues presented, the Court finds it necessary to discuss certain matters which bear pertinently on the resolution thereof.

1. Nature of stockbroker-client relationship

It has been established that RSI is engaged “in the brokerage business, for the purchase and sale of any and all kinds of shares, bonds, debentures, **securities** x x x and any and all other kinds of properties x x x;”²⁶ and that petitioners maintained accounts with RSI as clients of its brokerage business.²⁷ Petitioners deposited funds to an RSI bank account for credit to their trading accounts; and in turn, RSI sold stock on petitioners’ behalf and remitted payments therefrom directly to petitioners’ bank accounts.²⁸ Given these facts, it is clear that RSI is a broker under Section 3.3 of the SRC, because it is “a person engaged in the business of buying and selling securities for the account of others.” RSI’s operations are therefore subject to the provisions of the SRC and to the jurisdiction and powers of the SEC over brokers. Furthermore, as an entity engaged in securities brokerage, RSI’s relationship to its clients, including petitioners, is in the nature of an agency, as it is essentially an agreement by RSI to render services on behalf of its clients, with the consent and authority of the latter.²⁹ RSI’s duties as an agent of petitioners under the law should therefore be deemed written into their agreement.³⁰ Likewise, the principles of the law on agency, including the liabilities of an agent, are applicable to RSI’s dealings with petitioners. Stated differently, stockbrokers, in their dealings with their clients, may be held liable not only under the SRC and allied laws, but also under the Civil Code.

²⁶ *Rollo* (vol. 2), p. 453; *rollo* (vol. 1), pp. 406-407.

²⁷ *Rollo* (vol. 1), p. 14; *rollo* (vol. 2), p. 454; *rollo* (vol. 1), pp. 406-407.

²⁸ *Rollo* (vol. 1), p. 407.

²⁹ *Abacus Securities Corp. v. Ampil*, 518 Phil. 478 (2006); 12 Am. Jur. 2d §148; and Civil Code, Art. 1868.

³⁰ *Resident Marine Mammals of the Protected Seascape Tañon Strait v. Sec. Reyes, et al.*, 758 Phil. 724, 765 (2015), citing *Heirs of San Miguel v. Court of Appeals*, 416 Phil. 943, 954 (2001); and *Surviving Heirs of Alfredo R. Bautista v. Lindo et al.*, 728 Phil. 630 (2014).



2. *Self-regulatory organizations:
concept, powers, and jurisdiction*

From their earliest inception in the United States, stock exchanges and securities markets have always exercised some form of control over their own regulatory affairs.³¹ It has been generally recognized that due to the large number of market participants and the lack of resources, full government regulation of securities markets is impractical.³² As such, stock exchanges and securities markets are allowed to regulate their own operations, subject to the control and supervision of the government regulatory authority. This principle is known as *self-regulation*; and is embodied in the SRC's declaration of policy, which states *inter alia* that "the State shall establish a socially conscious, free **market that regulates itself** x x x."³³ As explained by a commentator:

In lieu of direct regulation by the SEC of Exchanges and other securities-related organizations, the statutory scheme involves, in the first instance, the adoption by SROs of rules that are subject to SEC review and approval, and the enforcement of such rules by the SROs against their members. Under this SEC-supervised self-regulation, the SEC will step in only if the SROs are unable to perform properly their functions. In the process, the SEC is able to conserve its own resources, since the SROs effectively serve as its instrumentalities in the surveillance of the markets.³⁴

The principle of self-regulation is enshrined and fleshed out in Sections 39 and 40 of the SRC. Rule 3(R) of the 2015 SRC IRR defines a "*Self-Regulatory Organization or SRO*" as:

an organized Exchange, registered clearing agency, organization or association registered as an SRO under Section 39 of the Code, and which has been authorized by the Commission to: (1) **enforce compliance with relevant provisions of the Code and rules and regulations adopted thereunder**; (2) **promulgate and enforce its own rules** which have been approved by the Commission, by their members and/or participants, and; (3) **enforce fair, ethical and efficient practices** in the securities and commodity futures industries including securities and commodities exchanges.

Under Section 39.1 of the SRC, the SEC is given the "power to register as a self-regulatory organization, or otherwise grant licenses, and to regulate, supervise, examine, suspend or otherwise discontinue, as a condition for the operation of organizations whose operations are related to or connected with the securities market." In turn, associations of securities market participants

³¹ See Stuart Alan Banner, *Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860*, 250-280 (1998).

³² Rafael A. Morales, *The Philippine Securities Regulation Code (Annotated)* 270 (2005).

³³ SRC, Section 2.

³⁴ Morales, *supra* note 31 at 269, citing *History/Background of the Securities Regulation Code* (September 15, 2001).

Meyes

are allowed to apply for registration as SROs. Under the SRC, SROs are empowered: 1) to promulgate, amend, and enforce rules and regulations to govern the trading activities of its members;³⁵ 2) to control the admission of brokers, dealers, salespersons, and associated persons into a securities association;³⁶ and 3) to impose disciplinary sanctions upon its members.³⁷

The regulatory structure under the SRC is therefore a two-tiered scheme, with the SROs as the first-level regulatory entities, subject to the review, regulation, and supervision of the SEC as the second-level regulatory entity. The regulatory jurisdiction of SROs is defined in Section 40.2³⁸ of the SRC, which mandates SROs to “comply with the provisions of this Code, the rules and regulations thereunder, and its own rules, and enforce compliance therewith x x x.” The PSE, as an SRO, established the CMIC as its independent enforcement and compliance monitoring arm. Article II, Section 1 of the CMIC Rules provides:

Section 1. Jurisdiction of CMIC. CMIC shall have the jurisdiction to investigate and resolve: (1) All violations of the Securities Laws or these Rules by Trading Participants, and; (2) Trading-Related Irregularities and Unusual Trading Activities involving Issuers, based on any of the following complaints, findings, reports or determinations:

- (a) Written complaints filed directly with CMIC by customers, Trading Participants, or any aggrieved party for alleged violation of the Securities Laws or these Rules;
- (b) Examination Findings of CMIC based on regular annual examinations or for cause examinations of Trading Participants;
- (c) Reports of Trading-related Irregularities or Unusual Trading Activities; and
- (d) Matters which CMIC has determined should be investigated and resolved to enforce the Securities Laws and these Rules, including matters referred to CMIC by the Commission, the Clearing Agency, and the Exchange, including the [Disclosure Department].

Any Complaint or referral to CMIC for investigation and/or resolution should be sent in writing to CMIC President and should state the particulars of the Complaint or referral. CMIC may act on anonymous complaints or referrals provided these contain sufficient leads or particulars to enable the taking of further action.

It is readily apparent from the foregoing that, in enacting the principle of self-regulation into statute, Congress delegated a modicum of regulatory power to the SROs. These regulatory powers are exercised “[i]n lieu of direct regulation by the SEC of Exchanges and other securities-related

³⁵ SRC, Sections 40.2, 40.3, and 40.4.

³⁶ SRC, Section 39.4.

³⁷ SRC, Sections 40.6 and 40.7.

³⁸ SEC. 40. Powers with Respect to Self-Regulatory Organizations. — x x x 40.2. Every self-regulatory organization shall comply with the provisions of this Code, the rules and regulations thereunder, and its own rules, and enforce compliance therewith, notwithstanding any provision of the Corporation Code to the contrary, by its members, persons associated with its members or its participants.

Meyer

organizations,” and are therefore of the same legal nature as that of the SEC’s powers.

3. Construction of securities laws in accordance with the policy statement of the SRC

The state policy on securities regulation is articulated in Section 2 of the SRC, which reads:

SECTION 2. Declaration of State Policy. — The State shall establish a socially conscious, free market that regulates itself, encourage the widest participation of ownership in enterprises, enhance the democratization of wealth, promote the development of the capital market, protect investors, ensure full and fair disclosure about securities, minimize if not totally eliminate insider trading and other fraudulent or manipulative devices and practices which create distortions in the free market.

To achieve these ends, this Securities Regulation Code is hereby enacted.

It has been observed that the aforementioned provision lays down seven core principles of our securities regulation laws: self-regulation, encouragement of the widest participation of ownership in enterprises, enhancement of the democratization of wealth, promotion of capital market development, protection of investors, ensuring full and fair disclosure about securities, and minimization, if not total elimination, of insider trading and other fraudulent or manipulative devices and practices that create distortions in the free market, with the unifying principle being the protection of investors.³⁹ These core principles animate the whole of the SRC; and as such, any doubt or conflict in the interpretation of the SRC and its implementing rules must be resolved in a manner that will carry out the foregoing principles.⁴⁰ We therefore resolve the issues before Us with these principles in mind, giving particular attention to the principles of full disclosure, investor protection, and the elimination of fraudulent or manipulative devices and practices.

B. Prescription

RSI argues that the Requests should be treated as complaints under Article II, Section 4 of the CMIC Rules, which must be filed within six months from knowledge of the commission of the violation. According to RSI, the Requests are rooted in the questionable transactions undertaken by Valbuena, which were discovered by petitioners in December 2011; hence the filing of the Requests almost three years later in August 2014 is already barred by prescription.

³⁹ Morales, *supra* note 31 at 7-9.

⁴⁰ Id. at 7; Lucila M. Decasa, *Securities Regulation Code Annotated with Implementing Rules and Regulations 2* (2013).

Reyes

Petitioners, by contrast, contend that the Requests should be treated as such, *i.e.*, as mere requests for assistance to produce books and records falling under Article IX of the CMIC Rules, and not as complaints under Article II.

At this point, the Court deems it appropriate to quote in full the Request for Assistance submitted by Palanca:

I am Carlos S. Palanca IV, a client of RCBC Securities, Inc. (RSEC) since 2007. I am seeking the assistance of this Honorable Office to direct RSEC to furnish me the complete records of my transactions with the latter.

Beginning in 2007, I regularly traded stocks through RSEC. I coursed my orders through the latter's former Sales Director, Ms. Mary Grace "MG" Valbuena ("Ms. Valbuena;" attached as Annex "A" is Ms. Valbuena's business card). I deposited funds to RSEC's bank account (SA No. 100802699) for credit to my trading account in accordance with the instructions posted in RSEC's website (please see Annexes "B" to "OO", consisting of RSEC's website deposit instructions, deposit slips, checks, check vouchers, and provisional receipts). I received payment for the stocks that I sold through RSEC by way of funds remitted directly to my bank account.

On December 26, 2011, I received information that Ms. Valbuena, RSEC's Sales Director, was terminated by RSEC. On December 28, 2011, I met with various RSEC officials, including Messrs. Raul Leopando, Jerome Tan, Diosdado Salang Jr, Annie Lim, and Atty. Macel Estavillo to try to understand what has transpired within RSEC.

During that meeting, the said RSEC Officials gave me a copy of what they claimed were my authentic SOAs for the period January 1, 2007 to December 23, 2011 (Annex "PP"), which I saw only for the first time. In the same meeting, the RSEC officials informed me that most of the trade confirmation slips, and all of the SOAs that I received from Ms. Valbuena, were spurious. After going over the purported genuine SOAs, I immediately noticed that I did not authorize most of the purported transactions reflected therein, and that I never received any trade confirmation slips for those supposed genuine transactions.

I also noted that the entries in the SOA would readily show that the alleged transactions reflected therein are highly questionable, considering that most, if not all of them, were made at a loss. Furthermore, most of the buying trades I made through Ms. Valbuena, which were paid by deposits to RSEC's account, did not appear in the alleged genuine SOA. The alleged genuine SOA given by RSEC to me in December 2011 did not tally with my actual stock and cash positions. Worse, most of my deposits for credit to my trading account (Annexes "C" to "OO") do not appear in the alleged genuine SOA. After reviewing the alleged genuine SOA, I wrote RSEC on January 3, 2012, within the prescribed period set forth in the alleged official SOA, taking exception to the contents of the said SOA which did not conform to my transactions with RSEC. I also questioned the delayed manner in which the SOAs were given to me (please see Annex "PP").



In view of the above circumstances, I respectfully seek your Honorable Office's assistance to direct RSEC to furnish me copies of the following documents:

- (a) Confirmation slips of my alleged transactions as appearing in the SOA that RSEC provided, with information as to who received the same.
- (b) The application or utilization of my deposits to RSEC's bank account, for my buying transactions as appearing in Annexes "C" to "00", which do not appear in the supposed genuine SOA.
- (c) The sources of the deposits to my account as appearing in the allegedly genuine SOA. Most, if not all of these deposits, did not come from me;
- (d) Who received the monies withdrawn from my trading account based on the purported genuine SOA, and who gave instructions for such withdrawals, as most of these withdrawn amounts did not reach me.

Thank you for your assistance on this matter.

Very truly yours,

Carlos S. Palanca IV⁴¹

The aforementioned text makes it clear that the Requests filed by petitioners are exactly that: mere requests for the production of documents. Palanca requested the documents because the trades he made through Valbuena were not reflected in the SOA shown to him by RSI. The Requests neither asked the PSE to gather facts and inquire into the circumstances of the apparent conflict between Palanca's records and the SOA produced by RSI; nor did they seek to compel RSI to do so. They are simply requests for PSE to exercise its powers as an SRO to compel RSI to furnish petitioners with copies of documents related to their trading account. The PSE and the CMIC are not being requested to conduct any further action on the matter other than the relief sought. As correctly held by the SEC:

In this case, Palanca IV and Cognatio did not pray for an investigation to be conducted by the CMIC for any trading-related irregularities or any violation of securities laws committed by RSI, pursuant to Section 4, Article II of the CMIC Rules. No complaint for an investigation was made by the appellants for the CMIC to find out, to obtain information, or collect facts concerning any trading-related irregularities or any violation of securities laws committed by RSI. Instead, appellants Palanca IV and Cognatio merely requested the CMIC for assistance in obtaining trading records from RSI. Further, contrary to the interpretation of the CMIC, the Letter-Request only indicated, as a background, the circumstances regarding any alleged trading irregularity.

⁴¹ *Rollo* (vol. 1), pp. 97-98. The Request filed by Cognatio "substantially reproduced" Palanca's Request. Petition for Review, *Rollo* (vol. 1), p. 16.

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Thus, [the] Letter-Request [for] RSI cannot be deemed to be a complaint for investigation.⁴²

As such, the Requests cannot be considered complaints under Article II of the CMIC Rules but as mere requests for production of records under the last paragraph of Article IX, Section 1 of the same Rules, which reads:

Section 1. Books and Records Rule. - x x x With the prior approval of the Commission and in addition to the computerized and effective recording and accounting system mandated by SRC 28.1(1)(E)(2)(x), a Trading Participant may make, keep current and maintain the books and records required by this Article IX and SRC Rule 52.1 in electronic form and/or medium (including electronic records, which the Exchange trading system may allow to be so made, kept current and maintained), provided that upon request by the Commission, the CMIC, or any other party, who may be legally entitled or authorized to access said books and records, the Trading Participant shall promptly and readily provide a comprehensible and certified true printed and/or electronic copy of the books and records or any part thereof.

Furthermore, this Court is unable to find in the aforequoted provision, or in any other part of the CMIC Rules, a rule that sets a prescriptive period for requests for production of records. The inescapable conclusion, therefore, is that the CMIC Rules did not intend to make such requests subject to prescription, as they are simple administrative requests. In contrast, complaints for investigation under Article II, Section 4 are subject to the six-month prescriptive period precisely because they trigger the investigatory powers of the CMIC. Therefore, the Requests filed by petitioners are not subject to prescription, being simple requests for access to records under Article IX, Section 1 of the CMIC Rules.

RSI's contentions that "there is no x x x procedural mechanism under the CMIC Rules that expressly allows a x x x request for assistance to produce documents"; and that Article IX, Section 1 of the CMIC Rules "merely pertains to the requirement of providing records requested by the CMIC, and not through its intervention,"⁴³ is contrary to the text of the provision itself, which clearly states that a trading participant is allowed to keep records in electronic form provided that, "upon request by the Commission, the CMIC, or any other party who may be legally entitled or authorized to access said books and records," the trading participant shall provide a copy of such records. Essentially, the provision allows a trading participant to keep its records in electronic form on the condition that the trading participant "shall promptly and readily provide a comprehensible and certified true printed and/or electronic copy of the books and records or any part thereof" when requested by the SEC, the CMIC, or *any other party who may be legally entitled or authorized to access said books and records*. This reading of the provision is in line with the SRC's overarching principle of investor protection. As a client of a stock brokerage firm with a legally

⁴² Id. at 411.

⁴³ *Rollo* (vol. 2), pp. 479-480.

Meyer

recognized contractual relationship, it is undeniable that petitioners are “legally entitled or authorized” to access their trading records with RSI. To otherwise construe Article IX, Section 1 of the CMIC Rules as a mere investigatory tool available only to the CMIC would deprive the investing public of a remedy to inquire into the status of their investments, contrary to the SRC’s core principles of full disclosure, investor protection, and the elimination of fraudulent or manipulative devices and practices.

Furthermore, even assuming *arguendo* that there is no independent proceeding for requesting records under the CMIC Rules, it is undeniable that the SEC has the power to order RSI to produce the requested records. As correctly pointed out in the SEC decision, the disclosure provision of Article IX, Section 1 of the CMIC Rules is substantially reproduced in Rule 52.1.1.3 of the 2015 IRR of the SRC, *viz.* :

52.1.1.3. With the prior approval of the Commission and in addition to the computerized and effective recording and accounting system mandated by SRC Rule 28.1, a Broker Dealer may make, keep current and maintain the books and records in electronic form and/or medium (including electronic records, which the Exchange trading system may allow to be so made, kept current and maintained), Provided that, **upon directive by the Commission**, the Exchange, or any other party, who may be legally entitled or authorized to access said books and records, **the Broker Dealer shall promptly and readily provide a comprehensible and certified true printed and/or electronic copy of the books and records or any part thereof. Failure to do so shall result in immediate suspension of the Broker Dealer's registration.** Such suspension shall continue until such time as the books and records are made available to the requesting organization and the said organization has satisfied itself that the books and records have not been modified or otherwise changed or altered during the period of suspension.

Thus, the SEC did not exceed its jurisdiction when it ordered RSI to release the records requested by petitioners, as it was well within its powers under the SRC to do so.

C. Res judicata

Petitioners likewise argue that the Requests are not barred by *res judicata*. They assert that the PSE-MRD decision was based on RSI’s multiple violations of the PSE’s rules, an issue which is completely different from RSI’s refusal to release petitioners’ trading records; that furthermore, petitioners were not involved howsoever in the PSE-MRD case. As such, it is asserted that there is no identity of parties, subject matter, and cause of action between the PSE-MRD case and the Requests. RSI counters that the Requests are barred by *res judicata*, not only by the PSE-MRD decision, but also by the specific performance cases which were dismissed by the RTC of Makati City; that the PSE-MRD Decision and the Requests both involve the same violations of the securities laws; that petitioners “are effectively



‘privy-in-law’ to the PSE-MRD case,” because they “have aligned their claims with those of the parties involved in the PSE-MRD case” when they cited the PSE-MRD decision in their Letter-Replies; argued that the Requests filed by petitioners are intended to commence an investigation against RSI on the basis of Valbuena’s questionable transactions, which will result in the imposition of the same sanctions that have already been imposed on RSI by the PSE-MRD decision. As regards the specific performance cases filed by petitioners with the RTC of Makati City, RSI argues that the dismissals thereof were made on the merits, and that they share “substantially similar” causes of action.

The doctrine of *res judicata* is expressed in Rule 39, Section 47(b) of the Rules of Court, which states *inter alia* that a “judgment or final order is, with respect to the matter directly adjudged or as to any other matter that could have been raised in relation thereto, conclusive between the parties and their successors in interest by title subsequent to the commencement of the action or special proceeding, litigating for the same thing and under the same title and in the same capacity.” *Presidential Decree No. 1271 Committee v. De Guzman* states the reason for the rule:

Res judicata is premised on the principle that a party is barred from presenting evidence on a fact or issue already judicially tried and decided. In *Philippine National Bank v. Barreto*:

It is considered that a judgment presents evidence of the facts of so high a nature that nothing which could be proved by evidence *aliunde* would be sufficient to overcome it; and therefore it would be useless for a party against whom it can be properly applied to adduce any such evidence, and accordingly he is estopped or precluded by law from doing so.⁴⁴ (Citations omitted)

In the recent case of *Monterona v. Coca-Cola Bottlers Philippines, Inc.*,⁴⁵ it was held that:

The elements of *res judicata* are: (1) the judgment sought to bar the new action must be final; (2) the decision must have been rendered by a court having jurisdiction over the subject matter and the parties; (3) the disposition of the case must be a judgment on the merits; and (4) there must be as between the first and second action, identity of parties, subject matter, and causes of action. x x x Should identity of parties, subject matter, and causes of action be shown in the two cases, then *res judicata* in its aspect as a “bar by prior judgment” would apply. If as between the two cases, only identity of parties can be shown, but not identical causes of action, then *res judicata* as “conclusiveness of judgment” applies.

⁴⁴ 801 Phil. 731, 764-765 (2016).

⁴⁵ G.R. No. 209116, January 14, 2019.

A handwritten signature in black ink, appearing to read 'Meyer', is located in the bottom right corner of the page.

In turn, *Bachrach Corporation v. CA*⁴⁶ clarifies the distinction between cause of action and subject matter:

A cause of action, broadly defined, is an act or omission of one party in violation of the legal right of the other. The subject matter, on the other hand, is the item with respect to which the controversy has arisen, or concerning which the wrong has been done, and it is ordinarily the right, the thing, or the contract under dispute. x x x⁴⁷

It is undisputed that the PSE-MRD decision is a final judgment on the merits rendered by a competent tribunal with jurisdiction over RSI. As found by the appellate court, the PSE-MRD decision penalized RSI for violating the following regulations: Article V, Section 2 par. B of the Amended Market Regulation Rules in relation to SRC Rule 30.2-6 on Supervision; Article V, Section 1 par. B of the Amended Market Regulation Rules in relation to SRC Rule 30.2-1 on Ethical Standards Rule; Article V, Section 7 of the Amended Market Regulation in relation to SRC Rule 30.2-6 on Suitability Rule and Article VI, Section 3 of the Amended Market Regulation Rules in relation to SRC Rule 30.2-3 par. E on Discretionary Accounts; Article IV of the Amended Market Regulation Rules or Code of Conduct and Professional Ethics for Traders and Salesmen; SRC Rule 34.1-2 on Segregation of Functions; and Article VI, Section 10 of the Amended Market Regulation Rules in relation to SRC Rule 24.2-2 on Short Sales. RSI was imposed the penalty of five million pesos (P5,000,000.00) due to its “*excessive violations of the [aforementioned] provisions of the Securities Regulation Code, its implementing rules and regulations, x x x and the Amended Market Regulation Rules.*” RSI was likewise “*ordered to amend its internal control procedures to include measures to prevent similar type of unauthorized transactions from occurring again and to submit its amended internal control procedures*”. Given the charges and the sanction imposed, it is quite obvious that the PSE-MRD decision is based on an administrative disciplinary proceeding against RSI, which is rooted in the PSE’s self-regulatory powers under Sections 40.2 and 40.6(a) of the SRC.

Given the foregoing, We find that the PSE-MRD Decision does not constitute *res judicata vis-à-vis* the Requests filed by petitioners.

A cause of action is an act or omission by which a party violates a right of another.⁴⁸ Here, the ultimate act which gave rise to both the PSE-MRD case and the Requests is the series of questionable transactions committed by Valbuena. These transactions simultaneously violated not only the regulations of the PSE, thus giving rise to administrative liability on the part of Valbuena’s employer, RSI; but also petitioners’ rights under their brokerage relationship with RSI. As to identity of subject matter, on one

⁴⁶ 357 Phil. 483 (1998).

⁴⁷ Id. at 491.

⁴⁸ Rules of Court, Rule 2, Section 2.

Meyer

hand, the PSE-MRD decision concerns RSI's administrative liability for violation of securities rules *in general*, without reference to any particular stock brokerage contract. The PSE-MRD's jurisdiction to sanction RSI stems from the latter's membership in the PSE, which is required under the securities laws and regulations.⁴⁹ On the other hand, the subject matter of the Requests filed by petitioners is the trading record pertinent to the particular stock brokerage contracts existing between petitioners and RSI. The Requests do not seek a declaration of liability or an imposition of any penalty whatsoever on RSI. Rather, they are mere requests for the production of documents which RSI is obliged to produce under the CMIC Rules and the law governing its relationship with petitioners. As such, the matter of the release of the requested records was not, in the words of the Rules of Court, "directly adjudged" or "could have been raised in relation" to the PSE-MRD case. It therefore follows that there can be no actual or substantial identity between the parties in the PSE-MRD case and in the Requests, for the relief sought by petitioners in their Requests is of a totally different nature from the sanction imposed on RSI in the PSE-MRD case. The administrative sanction imposed on RSI by the PSE-MRD does not inure to petitioners' benefit insofar as their trading contract with RSI is concerned, for it does not compel RSI to make any payment or other action with respect to any account affected by Valbuena's questionable transactions.

Turning now to the RTC cases, the dismissals of which were affirmed by this Court, it is apropos to revisit the orders of dismissal rendered by the trial courts.

In a Consolidated Order dated August 1, 2013,⁵⁰ the Makati City RTC, Branch 133 dismissed Palanca's complaint for failure to state a cause of action against RSI. According to the RTC, Palanca's complaint cited the Customer Account Information Form (CAIF) and the Safekeeping Agreement as the actionable documents which form the basis of his action, but failed to attach said documents to the complaint.⁵¹ The RTC held that since Palanca admitted that he had to open an account with a brokerage firm in order to trade securities, the documentary evidence of the existence of his account with RSI was necessary to show that he had a contractual relationship with RSI;⁵² that since Palanca failed to submit documentary evidence of a contractual relationship between him and RSI, his cause of action for violation of the duties embodied in the said Safekeeping Agreement must fail.⁵³

⁴⁹ Rule 28.1, 2003 Implementing Rules and Regulations of the SRC; reiterated in Rule 28.1, 2015 Implementing Rules and Regulations of the SRC.

⁵⁰ *Rollo* (vol. 1), pp. 188-199. The order was penned by Judge Elpidio R. Calis.

⁵¹ *Id.* at 195-196.

⁵² *Id.* at 196.

⁵³ *Id.* at 197-198.

Meyer

Cognatio's complaint was likewise dismissed by Branch 134 of the same court in an Order dated April 30, 2014.⁵⁴ As with the August 1, 2013 Consolidated Order, Cognatio's complaint was dismissed for failure to attach the CAIF and the Safekeeping Agreement thereto. The trial court held that those documents, which serve as evidence of the agency relationship between RSI and Cognatio, are "primal to [Cognatio's] cause of action and it is therefore incumbent upon [Cognatio] to state the substance of these documents and attach the original or a copy of these documents to the complaint".⁵⁵ More tellingly, the trial court held that the complaint shows no allegations of fact which establish Cognatio's legal right, based on an agency relation, to demand from RSEC the properties it entrusted to the latter.⁵⁶

The RTC's orders reveal that the RTC cases were dismissed for failure to plead actionable documents. It cannot therefore be said that the dismissals of the two cases were made on the merits, since the RTC did not actually rule on the issues raised by the complaints, simply and precisely because the complaints failed to plead the documents that state petitioners' cause of action. For this reason, We cannot subscribe to the appellate court's finding that "the documents purportedly being sought by [petitioners] through the Letter-Complaints were already the subject of the RTC Cases, which had already been dismissed with finality by the Supreme Court". Furthermore, as the dismissal of the RTC cases was premised on a ground that does not bar re-filing⁵⁷, petitioners were well within their rights to "demand that [RSI] produce evidence in support of [petitioners'] causes of action,"⁵⁸ in order that they may obtain the aforesaid actionable documents and attach them to whatever complaint they may file. It is therefore clear that the RTC cases do not constitute *res judicata* as against the Requests.

D. Forum shopping

Forum shopping is the repetitive availment of several judicial remedies in different courts, simultaneously or successively, all substantially founded on the same transactions and the same essential facts and circumstances, and all raising substantially the same issues, either pending in or already resolved adversely by some other court, to increase the chances of obtaining a favorable decision if not in one court, then in another.⁵⁹ It is prohibited under Rule 7, Section 5 of the Rules of Court, to prevent "the rendition by two competent tribunals of two separate and contradictory decisions;" and to deter unscrupulous party litigants from repeatedly trying

⁵⁴ Id. at 105-118. The order was penned by Judge Perpetua T. Atal-Paño (now Associate Justice of the Court of Appeals).

⁵⁵ Id. at 115.

⁵⁶ Id. at 116.

⁵⁷ Rules of Court, Rule 16, Section 5.

⁵⁸ CA Decision, p. 19; *rollo* (vol. 1), p. 64.

⁵⁹ *Lanao del Norte Electric Coop., Inc. v. Provincial Government of Lanao del Norte et al.*, 817 Phil. 263, 279 (2017).. citing *Grace Park International Corp. v. Eastwest Banking Corp.*, 791 Phil. 570 (2016).



their luck in several different tribunals until a favorable result is reached.⁶⁰ Actions filed with willful and deliberate intent to commit forum shopping are dismissed with prejudice.⁶¹

The test to determine the existence of forum shopping is whether a final judgment in one case amounts to *res judicata* in another or, whether the following elements of *litis pendentia* are present: (a) identity of parties, or at least such parties as representing the same interests in both actions; (b) identity of rights asserted and reliefs prayed for, the relief being founded on the same facts; and (c) identity of the two preceding particulars, such that any judgment rendered in the other action will, regardless of which party is successful, amount to *res judicata* in the action under consideration.⁶²

As elsewhere discussed, it has already been established that neither the PSE-MRD case nor the RTC cases constitute *res judicata* against the Requests. Our discussion thereon also debunks the appellate court's ratiocination that petitioners are splitting their cause of action, for it is clear that the PSE-MRD decision and the Requests filed by petitioners have different subject matters and pertain to different liabilities of RSI. While it is indeed true that the PSE-MRD ruling and the Requests originate from the same incident involving the questionable trades made by Valbuena, the two cases pertain to different liabilities created thereby. The PSE-MRD decision pertains *solely* to RSI's administrative liability as a member of a self-regulatory organization, while the Requests pertain to RSI's duty to release trading records to its clients.

In conclusion, this Court reiterates that procedural rules are nothing but the handmaids of substantive law. The rules of procedure are designed to facilitate the precise application and speedy enforcement of substantive laws.⁶³ In the case at bar, the Court has endeavored to uphold the fundamental aims of our securities laws amidst the unintended entanglements brought about by the rules intended for the enforcement thereof. Investor protection and full disclosure are necessary ingredients for the democratization of wealth and the promotion of the development of the capital market.

WHEREFORE, premises considered, the petition is hereby **GRANTED**. The Decision dated October 27, 2017 and the Resolution dated September 5, 2018 of the Court of Appeals in CA G.R. SP No. 148920 are hereby **REVERSED** and **SET ASIDE**. The Decision dated December 6, 2016 of the Securities and Exchange Commission in SEC En Banc Case No. 07-15-379 is hereby **REINSTATED**.

⁶⁰ *Villamor & Victolero Construction Co. v. Sogo Realty and Development Corp.*, G.R. Nos. 218771 & 220689, June 3, 2019.

⁶¹ *Supra* note 59.

⁶² *Supra* note 60.


⁶³ Rules of Court, Rule 1, Section 6.




SO ORDERED.

Reyes
ANDRES B. REYES, JR.
Associate Justice

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

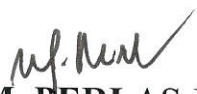

RAMON PAUL L. HERNANDO
Associate Justice


HENRI JEAN PAUL B. INTING
Associate Justice


EDGARDO L. DELOS SANTOS
Associate Justice

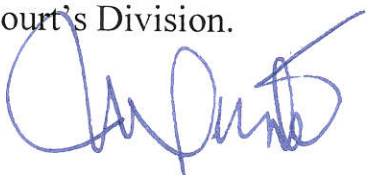
ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ESTELA M. PERLAS-BERNABE
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


DIOSDADO M. PERALTA
Chief Justice