

## THIRD DIVISION

[ G.R. No. 191939, March 14, 2018 ]

**ALLIED BANKING CORPORATION, PETITIONER,<sup>[1]</sup> V. IN THE  
MATTER OF THE PETITION TO HAVE STEEL CORPORATION OF  
THE PHILIPPINES PLACED UNDER CORPORATE REHABILITATION  
WITH PRAYER FOR THE APPROVAL OF THE PROPOSED  
REHABILITATION PLAN, EQUITABLE PCI BANK, INC.,  
RESPONDENT.**

### D E C I S I O N

**MARTIRES, J.:**

This is a petition for review on certiorari under Rule 45 of the Rules of Court assailing the 22 July 2008 Decision<sup>[2]</sup> and 12 April 2010 Resolution<sup>[3]</sup> of the Court of Appeals (CA) in CA-G.R. SP No. 97206. The CA affirmed the 22 November 2006 Resolution of the Regional Trial Court (*RTC or the rehabilitation court*), Branch 2, Batangas City, in Spec. Proc. No. 06-7993, which ordered the bank creditors of Steel Corporation of the Philippines (*SCP*) to unfreeze and restore the latter's bank accounts to the possession, control, and custody of the rehabilitation receiver.

### THE FACTS

On 11 September 2006, Equitable PCI Bank, Inc. (*EPCIB*), as creditor, filed a petition for the corporate rehabilitation of its debtor SCP with the RTC.

EPCIB alleged, among others, that due to the onslaught of the 1997 Asian Financial Crisis, SCP began experiencing a downward trend in its financial condition which prompted various banks and financial institutions to grant it with term loan facilities and working capital lines; that SCP failed to make timely payments on its term loan facilities; that SCP also defaulted on its loan obligations under the December 2002 Omnibus Agreement,<sup>[4]</sup> where lending banks and other financial institutions agreed to reschedule and restructure SCP's payments on the principal loan and interest, reinstate its working capital lines and establish a new trade financing line; and that the petition for corporate rehabilitation is grounded on Section 1, Rule 4 of the Interim Rules of Corporate Rehabilitation, which provides that "any debtor who foresees the impossibility of meeting its debts when they respectively fall due, or any creditor or creditors holding at least twenty-five percent (25%) of the debtor's total liabilities, may petition the proper Regional Trial Court to have the debtor placed under rehabilitation."

Apart from the foregoing agreements, Allied Banking Corporation (*ABC*) granted SCP with a revolving credit facility denominated as a letter of credit/trust receipt line in the amount of P100 million, which SCP availed of to finance the importation of its raw materials. Pursuant to this arrangement, SCP executed a trust receipt (*TR*),<sup>[5]</sup> which authorizes ABC to charge SCP's account in its possession under instances specified in paragraph 9 thereof, viz:

In the event of any bankruptcy, insolvency, suspension of payment, or failure, or assignment for the benefit of creditors, on my/our part, or of the non-fulfillment of any obligation, or of the non-payment at maturity of any acceptance specified hereon or under any credit issued by the ALLIED BANKING CORPORATION for my/our account, or of the non-payment of any indebtedness on my/our part to the said bank, all obligations, acceptances, indebtedness, and liabilities whatsoever shall thereupon (with or without notice) mature and become due and payable. The ALLIED BANKING CORPORATION is hereby constituted my/our attorney-in-fact, with authority to examine my/our books and records, to charge my/our account or to sell any other property of mine/ours in its possession, and to liquidate any or all of my/our obligations under this Trust Receipt.

### ***The RTC Ruling***

On 12 September 2006, the RTC issued an Order<sup>[6]</sup> (*the subject order*) granting EPCIB's petition, the dispositive portion of which reads:

WHEREFORE, finding the petition to be sufficient in form and substance, this Order is hereby issued—

(a) Appointing Santiago T. Gabionza Jr., with address at Villanueva Gabionza and De Santos Law Offices, 20/F 139 Corporate Center, Valero Street, Salcedo Village, Makati City, as Rehabilitation Receiver of Steel Corporation of the Philippines, directing him to assume his position as such upon the taking of an oath before the Branch Clerk of this Court and after posting a bond in the amount of P300,000.00 to guarantee the faithful discharge of his duties and obedience to the Orders of this Court;

(b) Upon acceptance by Santiago T. Gabionza, Jr. of his appointment as Rehabilitation Receiver, directing him:

[i] to take possession, control and custody of the assets of the debtor Steel Corporation of the Philippines;

[ii] to closely oversee and monitor the operations of the said debtor corporation during the pendency of the proceedings and to immediately report to this Court any material adverse change in its business;

[iii] to ensure that the value of the properties of Steel Corporation of the Philippines are reasonably maintained pending the termination of whether or not it should be rehabilitated;

[iv] to investigate the acts, conduct, properties, liabilities, and financial condition of the debtor-corporation, the operation of its business and the desirability of the continuance thereof, and any matter relevant to the proceedings or to the formulation of a rehabilitation plan;

[v] to report to this Court any fact ascertained by him pertaining to the causes of the debtor's problems, fraud, preferences, dispositions, encumbrances, misconduct, mismanagement, and irregularities committed by the stockholders, directors, management, or any other person against the debtor;

[vi] to evaluate the existing assets and liabilities, earnings and operations of the said debtor-corporation;

[vii] to determine and recommend to this Court the best way to salvage and protect the interests of the creditors, stockholders and the general public;

[viii] to exercise such powers and prerogatives stated above as may be necessary and proper under the law and the Interim Rules of Procedure on Corporate Rehabilitation over all other corporations, persons or entities as may be affected by these proceedings;

[ix] to apply to this Court for any order or directive that he may deem necessary or desirable to aid him in the exercise of his powers and performance of his duties and functions.

(c) **Staying all claims against SCP, by all other corporations, persons or entities insofar as they may be affected by the present proceedings, until further notice from this Court, pursuant to Sec. 6, of Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation.** Steel Corporation of the Philippines is hereby prohibited from selling, encumbering, transferring or disposing in any manner of its assets and properties except in the ordinary course of its business and as may be approved by the Rehabilitation Receiver.

The suppliers of goods or services of Steel Corporation of the Philippines are prohibited from withholding supply of goods and services in the ordinary course of business for as long as it is able to make payment for the services and goods supplied after the issuance of this Order.

Steel Corporation of the Philippines is directed to pay in full the administrative expenses incurred after the issuance of this Order.

The petitioner is directed to publish this Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks.

All other creditors and all interested parties, including the Securities and Exchange Commission, are directed to file and serve on the petitioner, thru their counsels on record, Divina and Uy Law Offices, 8th Floor, Pacific Star Building, Makati Avenue corner Sen. Gil Puyat Ave., Makati City, a verified comment on the petition, with supporting affidavits and documents, not later than ten (10) days before the date of the initial hearing. Failure to do so will constitute a bar on such creditors and all interested parties from participating in the proceedings.

xxx

SO ORDERED. (emphasis supplied)

On 15 September 2006, petitioner applied the remaining proceeds of SCP's Current Account No. 1801-004-87-6 (*subject account*) in the amount of P6,750,000.00, maintained with its Aguirre Branch, to its obligations under the TR.

On 29 October 2006, SCP filed an urgent omnibus motion alleging that petitioner violated the rehabilitation court's stay order when it applied the proceeds of its

current account to the payment of obligations covered by the stay order. Consequently, it prayed for ABC to immediately restore its current account, credit back to said account the amount of P6,750,000.00, and honor any and all transactions of SCP in said account.

On 2 November 2006, ABC filed an opposition, mainly contending that SCP's obligations with it had become due and demandable, rendering legal compensation valid and proper; that petitioner did not violate the stay order, as it had no notice of its issuance at the time of the legal compensation; and that petitioner cannot be legally compelled to extend credit to SCP against its will.

On 22 November 2006, the RTC issued a resolution (*the subject resolution*), finding merit in SCP's position, to wit:

WHEREFORE, in view of all the foregoing, the Court hereby orders as follows:

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3. ABC to restore SCP's Current Account No. 1801-004-87-6 at Aguirre Branch, Makati City, and to credit back to the said account the entire deposit balance therein of P6,750,000.00 and to honor any and all transactions of SCP in said account as may be approved by the Rehabilitation Receiver.

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Aggrieved, ABC filed a petition for review under Rule 43 with the CA.

### ***The CA Ruling***

The CA affirmed the resolution of the RTC, viz:

WHEREFORE, the November 22, 2006 Resolution of the Regional Trial Court, Branch 2, Batangas City, in Sp. Proc. No. 06-7993, is AFFIRMED.

The CA ruled that the RTC's stay order was effective from the date of its issuance on 12 September 2006, on the basis of Section 11, Rule 4, and Section 5, Rule 3, of the Interim Rules of Corporate Rehabilitation; thus, ABC was bound to comply with it on said date. The CA also ruled that the subject account was already under *custodia legis* by virtue of the stay order, rendering ABC's unilateral application of the proceeds in the subject account improper. On the issue of impairment of contractual rights, the CA held that no impairment exists because no changes were made in the amount or rate of SCP's debt to ABC. Only the enforcement of the latter's claims is being stayed or suspended.

Unconvinced, ABC filed a motion for reconsideration of the CA decision, which was denied by the CA in its resolution; hence, the instant petition.

### ***The present petition***

ABC contends that it was deprived of its right to due process when the RTC ordered ABC to restore SCP's current account and to credit back the amount previously set off. ABC asserts that it was not yet bound by the 12 September 2006 stay order when it made the setoff on 15 September 2006 because jurisdiction over it had not

yet been acquired by the rehabilitation court; the stay order was only published on 16 September 2006.

ABC further contends that when it offset the proceeds in the subject account, it merely applied the provisions of law on legal compensation, since SCP had already incurred a default in its obligations rendering operative the terms of the TR it had issued.

## **ISSUES**

ABC raises the following issues:

**I. THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE LOWER COURT'S DECISION THAT PETITIONER ABC IS BOUND BY THE SEPTEMBER 12, 2006 STAY ORDER THEREBY UNLAWFULLY DEPRIVING THE PETITIONER OF ITS RIGHT TO DUE PROCESS OF LAW.**

**II. THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE LOWER COURT'S DECISION THAT PETITIONER ABC IS PROHIBITED FROM APPLYING THE PROCEEDS OF THE DEPOSIT ACCOUNT OF STEEL CORPORATION TO ITS OUTSTANDING OBLIGATIONS FROM THE DATE OF THE ISSUANCE OF THE STAY ORDER ON 12 SEPTEMBER 2006, AS THE SAID PROCEEDS ARE ALREADY UNDER CUSTODIA LEGIS, BY VIRTUE OF THE STAY ORDER.**

## **THE COURT'S RULING**

The central argument to the present petition is that the RTC could not invalidate an act already consummated prior to the date that the subject order was published, since it was only on said date that the court acquired jurisdiction over ABC. ABC primarily bases its assertion on Section 1, Rule 3 of the Interim Rules,<sup>[7]</sup> which considers rehabilitation proceedings as *in rem* and jurisdiction over all those affected acquired only upon publication of the notice commencing proceedings.

This Court is thus tasked to determine when the subject order took effect for purposes of compliance, and whether the rehabilitation court can reverse or invalidate acts that are inconsistent with its stay order and are made after its issuance but prior to its publication.

***Applying the provisions of the present Rehabilitation Rules, the rehabilitation court properly invalidated ABC's action.***

The rehabilitation petition was filed by EPCIB under A.M. No. 00-8-10-SC dated 21 November 2000, or the 2000 Interim Rules of Procedure on Corporate Rehabilitation (*Interim Rules*).

On 27 August 2013, however, the Court enacted A.M. No. 12-12-11-SC, or the Financial Rehabilitation Rules of Procedure (*Rehabilitation Rules*), which amended and revised the Interim Rules and the subsequent 2008 Rules of Procedure on Corporate Rehabilitation (*2008 Rules*), in order to incorporate the significant