

SECOND DIVISION

[G.R. No. 184317, January 25, 2017]

**METROPOLITAN BANK AND TRUST COMPANY, PETITIONER, V.
LIBERTY CORRUGATED BOXES MANUFACTURING CORPORATION,
RESPONDENT.**

DECISION

LEONEN, J.:

A corporation with debts that have already matured may still file a petition for rehabilitation under the Interim Rules of Procedure on Corporation Rehabilitation.

This resolves a Petition for Review^[1] on certiorari assailing the Court of Appeal's June 13, 2008 Decision^[2] and August 20, 2008 Resolution.^[3] The Court of Appeals affirmed the Regional Trial Court's December 21, 2007 Order^[4] approving Liberty Corrugated Boxes Manufacturing Corp.'s rehabilitation plan.

Respondent Liberty Corrugated Boxes Manufacturing Corp. (Liberty) is a domestic corporation that produces corrugated packaging boxes.^[5] It obtained various credit accommodations and loan facilities from petitioner Metropolitan Bank and Trust Company (Metrobank) amounting to P19,940,000.00. To secure its loans, Liberty mortgaged to Metrobank 12 lots in Valenzuela City.^[6]

Liberty defaulted on the loans.^[7]

On June 21, 2007, Liberty filed a Petition^[8] for corporate rehabilitation before Branch 74 of the Regional Trial Court of Malabon City. Liberty claimed that it could not meet its obligations to Metrobank because of the Asian Financial Crisis, which resulted in a drastic decline in demand for its goods, and the serious sickness of its Founder and President, Ki Kiao Koc.^[9]

Liberty's rehabilitation plan consisted of: (a) a debt moratorium; (b) renewal of marketing efforts; (c) resumption of operations; and (d) entry into condominium development, a new business.^[10]

On June 27, 2007, the Regional Trial Court, finding the Petition sufficient in form and substance, issued a Stay Order^[11] and set an initial hearing for the Petition. On August 6, 2007, Metrobank filed its Comment/Opposition. It argued that Liberty was not qualified for corporate rehabilitation; that Liberty's Petition for rehabilitation and rehabilitation plan were defective; and that rehabilitation was not feasible. It also claimed that Liberty filed the Petition solely to avoid its obligations to the bank.

In its September 20, 2007 Order,^[12] the Regional Trial Court gave due course to the Petition and referred the rehabilitation plan to the Rehabilitation Receiver.

Rehabilitation Receiver Rafael Chris F. Teston recommended the approval of the plan, provided that Liberty would initiate construction on the property in Valenzuela within 12 months from approval.^[13]

In its December 21, 2007 Order,^[14] the Regional Trial Court approved the rehabilitation plan. The trial court found that Liberty was capable of being rehabilitated and that the rehabilitation plan was feasible and viable.^[15]

Metrobank appealed to the Court of Appeals. On June 13, 2008, the Court of Appeals issued the Decision^[16] denying the Petition and affirming the Regional Trial Court's December 21, 2007 Order.

The Court of Appeals affirmed the Regional Trial Court's finding that debtor corporations could still avail themselves of the remedy of rehabilitation under the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules) even if they were already in default.^[17] It held that even insolvent corporations could still file a petition for rehabilitation.^[18]

The Court of Appeals also found that the trial court correctly approved the rehabilitation plan over Metrobank's Opposition upon the recommendation of the Rehabilitation Receiver, who had carefully considered and addressed Metrobank's criticism on the plan's viability.^[19]

The Court of Appeals stressed that the purpose of rehabilitation proceedings is to enable the distressed company to gain a new lease on life and to allow the creditors to be paid their claims. It held that the approval of the Regional Trial Court was precisely "'to effect a feasible and viable rehabilitation' of ailing corporations[,]"^[20] as required by Presidential Decree No. 902-A.

Metrobank moved for reconsideration, but the Motion was denied^[21] on August 20, 2008.

Hence, this Petition was filed.

This Court required respondent Liberty Corrugated Boxes Manufacturing Corp. to file its comment on the Petition within 10 days from notice.^[22] On March 23, 2009, respondent filed its Comments to the Petitioner,^[23] noted by this Court in its April 20, 2009 Resolution.^[24] Petitioner Metropolitan Bank and Trust Company filed its Reply^[25] dated May 26, 2009, which this Court noted in its July 20, 2009 Resolution.^[26] This Court also gave due course to the Petition and required the parties to submit their respective memoranda within 30 days from notice.

The parties filed their Memoranda on September 24, 2009^[27] and November 3, 2009.^[28]

Petitioner argues that respondent can no longer file a petition for corporate rehabilitation. It claims that Rule 4, Section 1 of the Interim Rules restricts the kind of debtor who can file petitions for corporate rehabilitation.^[29] Petitioner insists that the phrase "who foresees the impossibility of meeting its debts when they respectively fall due" must be construed plainly to mean that an element of foresight

is required.^[30] Because foresight is required, the debts of the corporation should not have matured.^[31]

Petitioner also argues that the Regional Trial Court's approval of the rehabilitation plan is contrary to Rule 4, Section 23 of the Interim Rules.^[32] Under the provision, the court may approve the rehabilitation plan over the opposition of the creditors only when two (2) elements concur: (a) when the court finds that the rehabilitation of the debtor is feasible; and (b) when the opposition of the creditors is "manifestly unreasonable."^[33] Petitioner claims that the Regional Trial Court did not declare the manifest unreasonableness of petitioner's opposition.^[34]

Petitioner likewise argues that respondent's Petition for rehabilitation and the attached inventory of accounts receivable failed to disclose the maturity dates of the accounts.^[35] This failure renders the Petition defective under Rule 4, Section 2(d) of the Interim Rules.^[36]

Petitioner further claims that the rehabilitation plan lacked material financial commitments required under Rule 4, Section 5 of the Interim Rules.^[37] The rehabilitation plan did not claim that new money would be invested in the corporation.^[38]

On the other hand, respondent insists on its qualification to seek rehabilitation.^[39] It argues that petitioner's reading of Rule 4, Section 1 of the Interim Rules is restrictive, merely indicating the minimum conditions for a debtor to be able to file a petition for rehabilitation.^[40]

In support of its claim that the remedy of corporate rehabilitation covers defaulting debtors, respondent cites Rule 4, Sections 4^[41] and 6^[42] of the Interim Rules.^[43] Under Section 6, a stay order, which may assume that cases have been filed to collect on matured debts, may be granted.

Respondent argues that the Court of Appeals' finding that the rehabilitation plan is feasible is well-grounded and in keeping with Rule 4, Section 23 of the Interim Rules.^[44] The Rehabilitation Receiver deemed the rehabilitation plan viable^[45] The Petition also listed the receivables, clearly due for collection, in its annexes.^[46]

Respondent further contends that contrary to petitioner's arguments, the rehabilitation plan contains material financial commitments.^[47] When the Interim Rules speak of "material financial commitments to support the rehabilitation plan,"^[48] it does not mean that the commitment must come from outside sources. The corporation's showing that the rehabilitation plan can find sufficient funding should be sufficient.^[49]

The issues for resolution are:

First, whether respondent, as a debtor in default, is qualified to file a petition for rehabilitation under Presidential Decree No. 902-A and Rule 4, Section 1 of the Interim Rules; and

Second, whether respondent's Petition for rehabilitation is sufficient in form and substance and respondent's rehabilitation plan, feasible.

I.A

A corporation that may seek corporate rehabilitation is characterized not by its debt but by its capacity to pay this debt.

Rule 4, Section 1 of the Interim Rules provides:

RULE 4

Debtor-Initiated Rehabilitation

SECTION 1. *Who May Petition.* — 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.

Petitioner insists that the words of the Interim Rules are clear and must be given their plain and literal meaning. A better interpretation requires scrutiny of the purpose behind the enactment of the Interim Rules and its provisions.

Philippine Bank of Communications v. Basic Polyprinters and Packaging Corporation^[50] reiterates the purpose of rehabilitation, which is to provide meritorious corporations an opportunity for recovery:

Under the Interim Rules, rehabilitation is the process of restoring "the debtor to a position of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan more if the corporation continues as a going concern than if it is immediately liquidated." It contemplates a continuance of corporate life and activities in an effort to restore and reinstate the corporation to its former position of successful operation and solvency.^[51] (Citations omitted)

As stated by the Court of Appeals in *Philippine Bank of Communications*, rehabilitation is in line with the State's objective to promote a wider and more meaningful equitable distribution of wealth.^[52]

In line with this objective, the Interim Rules provide for a liberal construction of its provisions:

RULE 2

Definition of Terms and Construction

. . . .

SECTION 2. *Construction.* — These Rules shall be liberally construed to carry out the objectives of Sections 5(d), 6(c) and 6(d) of Presidential Decree No. 902-A, as amended, and to assist the parties in obtaining a just, expeditious, and inexpensive determination of cases. Where applicable, the Rules of Court shall apply suppletorily to proceedings under these Rules.

To adopt petitioner's interpretation would undermine the purpose of the Interim Rules. There is no reason why corporations with debts that may have already

matured should not be given the opportunity to recover and pay their debtors in an orderly fashion. The opportunity to rehabilitate the affairs of an economic entity, regardless of the status of its debts, redounds to the benefit of its creditors, owners, and to the economy in general. Rehabilitation, rather than collection of debts from a company already near bankruptcy, is a better use of judicial rewards.

A.M. No. 08-8-10-SC^[53] further describes the remedy initiated by a petition for rehabilitation:

[A] petition for rehabilitation, the procedure for which is provided in the Interim Rules of Procedure on Corporate Recovery, should be considered as a special proceeding. It is one that seeks to establish the status of a party or a particular fact. As provided in section 1, Rule 4 of the Interim Rules on Corporate Recovery, the status or fact sought to be established is the ***inability of the corporate debtor to pay its debts*** when they fall due so that a rehabilitation plan, containing the formula for the successful recovery of the corporation, may be approved in the end. It does not seek a relief from an injury caused by another party. (Emphasis supplied)

Thus, the condition that triggers rehabilitation proceedings is not the maturation of a corporation's debts but the inability of the debtor to pay these.

I.B.

Where the law does not distinguish, neither should this Court.^[54] Because the definition under the Interim Rules is encompassing,^[55] there should be no distinction whether a claim has matured or otherwise.

Petitioner's proposed interpretation contradicts provisions of the Interim Rules, which contemplate situations where a debtor corporation may already be in default. As correctly pointed out by respondent, a creditor may possibly petition for the debtor's rehabilitation for default on debts already owed.^[56]

Rule 4, Section 1 of the Interim Rules does not specify what kind of debtor may seek rehabilitation. The provision allows creditors holding 25% of the debtor corporation's total liabilities to petition for the corporation's rehabilitation.

Further, Rule 4, Section 6 of the Interim Rules provides for a stay order "staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise."^[57] A stay order, however, only applies to the suspension of the enforcement of claims. Hence, claims, if proper, can still be instituted in other proceedings. There may already be pending claims against a debtor corporation for debts already matured.

In *Spouses Sobrejuanite v. ASB Development*,^[58] the purpose of the stay order is to preserve the rights of both the debtor corporation and its creditors:

The purpose for the suspension of the proceedings is *to prevent a creditor from obtaining an advantage or preference over another* and to protect and preserve the rights of party litigants as well as the interest of the investing public or creditors. Such suspension is intended to give enough breathing space for the management committee or rehabilitation