

## SECOND DIVISION

[ G.R. No. 188639, September 02, 2015 ]

**SECURITIES AND EXCHANGE COMMISSION, PETITIONER, VS.  
HON. REYNALDO M. LAIGO, IN HIS CAPACITY AS PRESIDING  
JUDGE OF THE REGIONAL TRIAL COURT, NATIONAL CAPITAL  
JUDICIAL REGION, MAKATI CITY, BRANCH 56, GLICERIA AYAD,  
SAHLEE DELOS REYES AND ANTONIO P. HUETE, JR.,  
RESPONDENTS.**

### D E C I S I O N

**MENDOZA, J.:**

In this petition for *certiorari*<sup>[1]</sup> under Rule 65 of the Rules of Court, petitioner Securities and Exchange Commission (SEC), through the Office of the Solicitor General (OSG), assails the June 26, 2009 Order<sup>[2]</sup> (June 26, 2009 Order) issued by respondent Judge Reynaldo M. Laigo (*Judge Laigo*) of the Regional Trial Court, Branch 56, Makati City (RTC), in Sp. Proc. No. M-6758,<sup>[3]</sup> a petition for involuntary insolvency of Legacy Consolidated Plans, Incorporated (*Legacy*), ordering the inclusion of the trust fund in its corporate assets to the prejudice of the planholders.

#### **Factual Antecedents**

Republic Act (R.A.) No. 8799, otherwise known as the Securities Regulation Code (SRC), specifically Section 16 thereof, mandated the Securities and Exchange Commission (SEC) to prescribe rules and regulations governing the pre-need industry. Pursuant thereto, the SEC issued the corresponding **New Rules on the Registration and Sale of Pre-Need Plans** (*New Rules*)<sup>[4]</sup> to govern the pre-need industry prior to the enactment of R.A. No. 9829, otherwise known as the **Pre-need Code of the Philippines** (*Pre-Need Code*). It required from the pre-need providers the creation of trust funds as a requirement for registration.

As defined in Rule 1.9 of the New Rules, " 'Trust Fund' means a fund set up from planholders' payments, separate and distinct from the paid-up capital of a registered pre-need company, established with a trustee under a trust agreement approved by the SEC, to pay for the benefits as provided in the pre-need plan."

Legacy, being a pre-need provider, complied with the trust fund requirement and entered into a trust agreement with the Land Bank of the Philippines (*IBP*).

In mid-2000, the industry collapsed for a range of reasons. Legacy, like the others, was unable to pay its obligations to the planholders.

This resulted in Legacy being the subject of a petition for involuntary insolvency filed on February 18, 2009 by private respondents in their capacity as planholders. Through its manifestation filed in the RTC, Legacy did not object to the proceedings.

Accordingly, it was declared insolvent by the RTC in its Order,<sup>[5]</sup> dated April 27, 2009. The trial court also ordered Legacy to submit an inventory of its assets and liabilities pursuant to Sections 15 and 16 of Act No. 1956,<sup>[6]</sup> otherwise known as the Insolvency Law, the applicable bankruptcy law at that time.

On May 15, 2009, the RTC ordered the SEC, being the pre-need industry's regulator, to submit the documents pertaining to Legacy's assets and liabilities.

In its Manifestation with Evaluation, dated June 10, 2009, the SEC opposed the inclusion of the trust fund in the inventory of corporate assets on the ground that to do so would contravene the New Rules which treated trust funds as principally established for the exclusive purpose of guaranteeing the delivery of benefits due to the planholders. It was of the position that the inclusion of the trust fund in the insolvent's estate and its being opened to claims by non-planholders would contravene the purpose for its establishment.

On June 26, 2009, despite the opposition of the SEC, Judge Laigo ordered the insolvency Assignee, Gener T. Mendoza (*Assignee*) to take possession of the trust fund. Judge Laigo viewed the trust fund as Legacy's corporate assets and, for said reason, included it in the insolvent's estate. Thus:

**WHEREFORE**, the Court rules as follows:

1. Directing the afore-named banks to report to Assignee, Gener T. Mendoza, whose address is at c/o GNCA Holdings, Inc., Unit 322, 3/F, LRI design Center, 210 Nicanor Garcia St., Makati City, the total funds as of today deposited to the insolvent debtor's respective Trust Funds, within five (5) days from receipt of this Order.
2. Subject funds can be withdrawn by the Assignee only upon Order of the Court for distribution among the creditors who have officially filed their valid claims with this Court, and for all the expenses to be incurred by the Assignee in the course of the discharge of his duties and responsibilities as such Assignee.
3. Stopping the Securities and Exchange Commission (SEC) from further validating the claims of planholders (now creditors) pertaining to their pre-need plans.

xxx xxx xxx

SO ORDERED.<sup>[7]</sup>

The RTC stated that the trust fund could be withdrawn by the Assignee to be used for the expenses he would incur in the discharge of his functions and to be distributed among the creditors who had officially filed their valid claims with the court.

**The Present Petition**

Intent on protecting the interest of the investing public and securing the trust fund exclusively for the planholders, the SEC filed "this present recourse directly to this Honorable Court in accordance with Section 5 (1), Article VIII of the 1987 Constitution for the reason that the matters involve an issue of *transcendental importance* to numerous hard-working Filipinos who had invested their lifetime savings and hard-earned money in Legacy, hoping that through this pre-need company they will be able to fulfill their dreams of providing a bright future for their children."<sup>[8]</sup>

### *The SEC's Position*

In essence, the SEC contends that Judge Laigo gravely abused his discretion in treating the trust fund as part of the insolvency estate of Legacy. It argues that the trust fund should redound exclusively to the benefit of the planholders, who are the ultimate beneficial owners; that the trust fund is held, managed and administered by the trustee bank to address and answer the claims against the pre-need company by all its planholders and/or beneficiaries; that to consider the said fund as corporate assets is to open the floodgates to creditors of Legacy other than the planholders; and that, in issuing the order, Judge Laigo effectively allowed non-planholders to reach the trust fund in patent violation of the New Rules established to protect the pre-need investors.

In its Memorandum,<sup>[9]</sup> the SEC stressed that the setting-up of the trust funds effectively created a demarcation line between the claims of planholders *vis-a-vis* those of the other creditors of Legacy; that Legacy's interest over the trust properties was only by virtue of it being a *trustor* and not the owner; and that the SEC was authorized to validate claims of planholders in the exercise of its power as regulator of pre-need corporations.

Further, the SEC is of the position that Section 52 of the Pre-Need Code<sup>[10]</sup> should be given retroactive effect for being procedural in character.

Thus, the SEC raises the following

## **ISSUES**

### **I.**

**Whether or not the Trust Funds of Legacy form part of its Corporate Assets.**

### **II.**

**Whether or not respondent Trial Court Judge committed grave abuse of discretion amounting to lack or excess of jurisdiction in issuing the herein assailed Order dated June 26, 2009.**

### **III.**

**Whether or not the claims of planholders are to be treated differently from the claims of other creditors of Legacy.**

**IV.**

**Whether or not Legacy retains ownership over the trust funds assets despite the execution of trust agreements.**

**V.**

**Whether or not the insolvency court, presided by respondent Trial Court Judge, has the authority to enjoin petitioner SEC from further validating the claims of Legacy's planholders and treating them as if they are ordinary creditors of Legacy.**

**VI.**

**Whether or not the provision of the Pre-need Code regarding liquidation is in the nature of a procedural law that can be retroactively applied to the case at bar.<sup>[11]</sup>**

*Private Respondents' position*

In their Comment/Opposition,<sup>[12]</sup> the private respondents, Gliceria Ayad, Sahlee Delos Reyes and Antonio P. Huerte, Jr. (*private respondents*), submit that nothing in the New Rules expressly provided that the trust fund is excluded from the inventory of corporate assets which is required to be submitted to the insolvency court; that the SEC's interference in the insolvency proceedings is incongruous to the legal system; and that under the provisions of the Insolvency Law, all claims, including those against the trust funds should be filed in the liquidation proceedings.<sup>[13]</sup> Hence, private respondents assert that no grave abuse of discretion was committed by Judge Laigo in issuing the June 26, 2009 Order.

*The Assignee's Position*

In his separate Comments on Petition<sup>[14]</sup> and Memorandum,<sup>[15]</sup> the Assignee contends that the trust fund forms part of Legacy's corporate assets for the following reasons: first, the insolvency court has jurisdiction over all the claims against the insolvent and the trust fund forms part of the company's corporate assets. It cited *Abrera v. College Assurance Plan*,<sup>[16]</sup> where the Court held that claims arising from pre-need contracts should not be treated separately from other claims against a pre-need company. As such, the claims over the trust fund, being claims against Legacy, are necessarily lodged with the insolvency court. Second, the setting up of the trust fund is a mere scheme to attain an administrative end, that is, the assurance that the benefits will be delivered under the pre-need contracts.

Considering that Legacy is the debtor as regards such benefits, it is only through it, or through the insolvency court, that the assets including the trust fund can be distributed to satisfy valid claims. Third, though the trustee banks hold legal title over the funds, the real parties-in-interest are the pre-need companies as the terms of the trust agreement between Legacy and LBP (as trustee) show this intent.

The Assignee also submits that no law authorized the SEC to interfere in the insolvency proceedings because its authority under the SRC is only to regulate the

sale of pre-need plans and not to regulate the management of trust funds.

In sum, the Assignee interprets the June 26, 2009 Order in this wise: that the creditors, planholders or not, should first line up and file valid claims with the insolvency court and not get entangled in the validation process of the SEC; and that once the planholders have qualified, they will be given preference in the distribution of the trust assets. Moreover, he proposes that if the trust fund assets will not be enough to satisfy all claims, the planholders can still join other claimants and participate in the distribution of the other assets of the pre-need company.<sup>[17]</sup>

From the foregoing, the Court is called to determine whether Judge Laigo gravely abused his discretion in:

1. Including the trust properties in the insolvent's estate; and
2. Prohibiting the SEC from validating the claims filed by the planholders against the trust fund.

### **The Court's Ruling**

The overarching consideration in the legislative mandate to establish trust funds is the protection of the interest of the planholders in the investment plans. The SRC provides in no uncertain terms the intent to make such interests paramount above all else. Thus, it directed the SEC to come up with rules and regulations to govern not only trust funds but the industry as a whole. Pursuant to its mandate and delegated authority, the SEC came out with the New Rules, which the Congress later on toughened through the enactment of the Pre-Need Code, carrying similar protection but far more detailed in scope.

It is in this context that this Court rules to grant the petition filed by the SEC. The Court finds that Judge Laigo gravely abused his discretion in treating the trust fund as assets that form part of Legacy's insolvency estate and in enjoining the SEC's validation of the planholders' claims against the trust properties.

*The Trust Fund is for the sole benefit  
of the planholders and cannot be used to  
satisfy the claims of other creditors of Legacy*

Section 30 of the Pre-Need Code clearly provides that the proceeds of trust funds shall redound solely to the planholders. Section 30 reads:

#### Trust Fund

**SECTION 30. Trust Fund.** — To ensure the delivery of the guaranteed benefits and services provided under a pre-need plan contract, a trust fund per pre-need plan category shall be established. A portion of the installment payment collected shall be deposited by the pre-need company in the trust fund, the amount of which will be as determined by the actuary based on the viability study of the pre-need plan approved by