

Case Digest: *Viva Shipping Lines, Inc. v. Keppel Philippines Mining, Inc., et al.* (2016)

Viva Shipping Lines, Inc. v. Keppel Philippines Mining, Inc. (February 17, 2016, G.R. No. 177382)

Source: [Viva Shipping Lines, Inc. v. Keppel Philippines Mining, Inc. \(2016\)](#)

Doctrine

Corporate rehabilitation is a statutory privilege meant to preserve a viable business as a going concern, but it cannot be invoked where the debtor's assets are largely non-performing and its plan is unrealistic, speculative, or incapable of generating better present value recovery for creditors. Procedural liberality in rehabilitation cases does not excuse non-compliance with mandatory appellate requirements under [Rule 43](#); on appeal, creditors are indispensable parties and must be impleaded to satisfy due process.

Facts

Viva Shipping Lines, Inc. filed a petition for corporate rehabilitation before the Regional Trial Court of Lucena City on October 4, 2005. The court initially denied the petition for failure to comply with the requirements under the Interim Rules of Procedure on Corporate Rehabilitation, but Viva later filed an amended petition. In that amended pleading, Viva claimed that it owned and operated numerous maritime vessels and an Ocean Palace Mall in Lucena City, and it stated that its assets had an assessed value of only around P45 million.

The documents attached to the amended petition, however, told a different story. Viva's property inventory showed that it actually owned only two vessels, M/V Viva Penafraancia V and M/V Marian Queen. The inventory also reflected a much higher fair market value for its assets, amounting to P447,860,000.00, although some properties were already encumbered by creditors. Viva listed several obligations, including a bank loan secured by real estate mortgage, vessel repair charges, and taxes due to local governments. It blamed its financial distress on the peso devaluation, increased competition, and mismanagement, and it claimed that most of its vessels had become unseaworthy because of age and deterioration.

Viva's rehabilitation plan proposed to fund recovery by selling old vessels and commercial lots of its sister company, Sto. Domingo Shipping Lines. It also proposed converting the Ocean Palace Mall into a hotel, buying two new vessels, and reviving an oil mill in Buenavista, Quezon. Viva nominated rehabilitation receiver candidates and, later, a former judge was appointed as receiver. The trial court later granted a stay order, suspended

monetary and judicial claims, and barred Viva from disposing of its properties except in the ordinary course of business.

Several creditors and interested parties opposed the petition. Metrobank, Keppel Philippines Marine, and the City of Batangas filed comments and oppositions. Pilipinas Shell also opposed the petition, and former employees including Luzviminda Cueto and Alejandro Olit, et al. filed monetary claims before the trial court. Metrobank sought production of documents relating to Viva's operations, but Viva failed to comply with the order to produce them and also failed to submit a memorandum. Later, the rehabilitation receiver withdrew his acceptance, and the trial court continued the proceedings without curing the underlying defects.

On October 30, 2006, the RTC lifted the stay order and dismissed the amended petition. It found that Viva failed to show viability and feasibility of rehabilitation, noted that its debts exceeded or at least substantially undermined its free assets, and observed that the assets appeared to be non-performing. Viva then elevated the matter to the Court of Appeals through a petition for review under [Rule 43](#), but it impleaded only the trial judge and not its creditors, although it served copies on some counsel. The Court of Appeals dismissed the petition for procedural defects and denied reconsideration, prompting Viva to seek relief from the Supreme Court.

Petitioner's Arguments

- Viva argued that the Court of Appeals should have relaxed the rules and given due course to its petition in the interest of substantial justice. It maintained that the rehabilitation rules call for liberal construction because rehabilitation cases aim to rescue distressed corporations.
- Viva insisted that its procedural lapses should have been excused because it later served copies of the petition on some parties and because the defects were technical rather than jurisdictional. It also argued that the lower court should have allowed it to clarify its petition instead of dismissing it outright.
- Viva further claimed that rehabilitation remained appropriate and that a new receiver should have been appointed to assess the plan. It contended that dismissal frustrated the policy of preserving businesses and protecting creditors through orderly reorganization.

Respondent's Arguments

- Respondents argued that dismissal was proper because Viva failed to implead its creditors as respondents in its Rule 43 petition. They stressed that this omission

deprived creditors of due process and left no proper respondents who could be required to comment.

- Respondents maintained that [Rule 43](#) expressly authorizes dismissal for failure to comply with the requirements on service, attachments, and contents of the petition. They also argued that rehabilitation liberalities apply, if at all, only in the trial court, not in appellate proceedings.
- Respondents further contended that even on the merits, rehabilitation was no longer feasible. They pointed out that Viva concealed material facts, admitted that most of its vessels were unseaworthy, and proposed a plan that depended on speculative asset sales and unrealistic business assumptions.

Case Trail

- The RTC initially denied the original rehabilitation petition for non-compliance with the rehabilitation rules.
- The RTC later accepted the amended petition and issued a stay order, with a rehabilitation receiver eventually appointed.
- After opposition, document-production issues, and further proceedings, the RTC lifted the stay order and dismissed the amended petition for lack of viability and feasibility.
- The Court of Appeals dismissed Viva's Rule 43 petition for procedural defects and denied reconsideration.

Ruling of the Court

W/N the Court of Appeals erred in dismissing Viva's Rule 43 petition on procedural grounds
-> No

- The Court held that [Rule 43](#) governs appeals from final orders in corporate rehabilitation cases and expressly requires that the petition state the full names of the parties, proof of service, and the accompanying documents. Viva violated these requirements when it failed to implead its creditors and instead impleaded the trial judge.
- The Court emphasized that creditors in rehabilitation cases are indispensable parties because a final adjudication affects their property rights. Since rehabilitation proceedings balance the interests of the debtor, creditors, and the public, creditors must be given the chance to participate on appeal and protect their claims.

- The Court rejected Viva's attempt to cure the defect by merely serving copies on some creditors. Service of the petition did not substitute for impleading them as parties, and it did not restore the due process rights that were already denied by their omission from the petition.
- The Court also rejected Viva's excuse for failing to serve the trial court copy of the petition. The right to appeal is a statutory privilege and must be exercised in accordance with the rules, and a hurried filing does not justify disregard of a mandatory procedural requirement.
- The Court further held that liberal construction was unavailing. It explained that liberality is an equitable exception, not a license to ignore the rules, and it may be invoked only when there is a clear factual basis showing that strict compliance would produce an injustice not caused by the party's own negligence or design.

W/N Viva was denied substantial justice by the Court of Appeals -> No

- The Court ruled that substantial justice did not require relaxation of the rules because Viva's own omissions caused the procedural defects. It noted that the petition's framing of respondents, service failures, and incomplete disclosures showed disregard of appellate procedure rather than an excusable mistake.
- The Court also found that the merits did not support rehabilitation. Rehabilitation is intended for a business that still has a reasonable prospect of becoming a going concern, but Viva admitted that most of its vessels were already unseaworthy.
- Applying the feasibility test, the Court held that Viva's plan was not sound or workable. Its funding scheme depended on selling the very assets needed for its core shipping operations, buying replacement vessels without a realistic financial base, and even relying on the sale of a sister company's properties without showing a binding and feasible legal basis for doing so.
- The Court stressed that a rehabilitation plan must promise better present value recovery for creditors. Here, the plan was speculative, unrealistic, and incapable of generating the cash flow needed to sustain operations and satisfy creditors equitably.
- The Court also agreed with the RTC that it was not necessary to appoint another receiver just to validate an already infeasible plan. The trial court itself could assess the plan, disapprove it, and terminate the proceedings when rehabilitation was no longer workable.

Dispositive Portion

The Court denied the petition and affirmed the Court of Appeals' resolutions dismissing Viva's appeal. In effect, the Court upheld the dismissal of Viva's amended rehabilitation petition and sustained the finding that rehabilitation was no longer feasible.

Bureau of Internal Revenue, et al. v. Lepanto Ceramics, Inc. (G.R. No. 224764, April 24, 2017)

Source: [Bureau of Internal Revenue, et al. v. Lepanto Ceramics, Inc. \(2017\)](#)

Doctrine

When a rehabilitation court issues a Commencement Order with a stay or suspension order, all actions for the enforcement of claims against the debtor, including tax claims of the government, are suspended. Government agents who continue to pursue collection outside the rehabilitation proceedings may be cited for indirect contempt, because rehabilitation law requires creditors to ventilate their claims before the rehabilitation court ([FRIA; Bureau of Internal Revenue, et al. v. Lepanto Ceramics, Inc. \(2017\)](#)).

Facts

Lepanto Ceramics, Inc. filed a petition for corporate rehabilitation on December 23, 2011 before the RTC of Calamba City, Branch 34, which acted as the rehabilitation court. Lepanto alleged that it had been suffering financial distress since the Asian financial crisis, that it was insolvent, and that its liabilities far exceeded its assets. In its annexes, Lepanto also admitted to tax liabilities to the national government amounting to at least P6,355,368.00.

On January 13, 2012, the rehabilitation court issued a Commencement Order. The order declared Lepanto under corporate rehabilitation, suspended all actions or proceedings for the enforcement of claims against it, prohibited payment of outstanding liabilities except as allowed by law, and directed the Bureau of Internal Revenue to file its comment, opposition, or claims in the rehabilitation case. The order was published and served on Lepanto's creditors, including the BIR.

Despite this, BIR officers later sent Lepanto a notice of informal conference dated May 27, 2013 regarding alleged deficiency internal revenue taxes for fiscal year ending June 30, 2010. Lepanto's court-appointed receiver reminded the BIR of the pending rehabilitation proceedings and the Commencement Order, but the BIR still issued a Formal Letter of Demand dated May 9, 2014 requiring payment of deficiency taxes in the amount of P567,519,348.39. Lepanto treated these acts as a direct disregard of the rehabilitation court's order and filed a petition for indirect contempt against the BIR officials.

The RTC of Calamba City, Branch 35, which heard the contempt case separately from the rehabilitation case, ruled that the BIR officers were guilty of indirect contempt. It reasoned that the rehabilitation proceeding and the Commencement Order had suspended the enforcement of claims, that the BIR's notice of informal conference and demand letter

were acts in pursuit of tax collection, and that the officers could have preserved the government's claims by presenting them before the rehabilitation court instead. The BIR officers moved for reconsideration, but their motion was denied, prompting the petition before the Supreme Court.

Petitioner's Arguments

- The BIR officers argued that the RTC hearing the contempt case had no jurisdiction to cite them in contempt, since only the rehabilitation court that issued the Commencement Order could determine whether it had been defied.
- They contended that the contempt petition had become moot because the rehabilitation proceedings were later terminated after Lepanto was successfully rehabilitated.
- They maintained that their acts were merely intended to toll the prescriptive period for collecting deficiency taxes and were not the type of "legal action or other recourse" barred by the Commencement Order.

Respondent's Arguments

- Lepanto argued that the BIR officers violated the Commencement Order by continuing to pursue deficiency tax collection outside the rehabilitation proceedings.
- It maintained that the notice of informal conference and Formal Letter of Demand were part of the assessment and collection process and thus fell within the suspension imposed by the rehabilitation court.
- It insisted that the officers should have ventilated the government's tax claim before the rehabilitation court instead of attempting collection independently.

Case Trail

- The RTC of Calamba City, Branch 35 found the BIR officers guilty of indirect contempt and fined each of them P5,000.00.
- The RTC denied the motion for reconsideration.
- The petitioners elevated the matter to the Supreme Court by petition for review on certiorari.
- The Supreme Court ultimately affirmed the RTC's ruling.

Ruling of the Court

W/N the BIR officers defied the Commencement Order by sending the notice of informal conference and Formal Letter of Demand -> Yes

- The Court held that the issue was not a mere technicality, because the Commencement Order under [FRIA](#) expressly suspended all actions or proceedings for the enforcement of claims against the debtor.
- Tax claims are included within the statutory definition of “claims,” and this includes claims of the government, whether national or local.
- The Court emphasized that rehabilitation law does not extinguish creditor rights; it only channels them to the rehabilitation court, where they must be properly presented and ventilated.
- Here, the BIR was duly notified of the rehabilitation case and of the Commencement Order, yet it still pursued collection through a notice of informal conference and a demand letter.
- The Court treated those acts as integral parts of the deficiency tax assessment and collection process, not as harmless ministerial steps.
- Because they were undertaken outside the rehabilitation proceedings, the acts amounted to a clear violation of the stay order.

W/N the contempt finding was improper because the BIR merely intended to toll prescription and perform its official duties -> No

- The Court rejected the claim that the officers could disregard the Commencement Order simply to preserve the government’s right to collect taxes.
- It explained that the officers could have tolled prescription while still complying with the rehabilitation process by filing the claim before the rehabilitation court.
- The Court also rejected the argument that contempt proceedings would interfere with the BIR’s tax-collection function, since the law itself provided a lawful avenue for asserting the claim.
- The officers had been adequately notified of the rehabilitation case, so they were not acting in ignorance of the suspension order.
- Their supposed good faith did not excuse the fact that they pursued collection despite the suspension.
- Thus, the RTC correctly treated their conduct as indirect contempt.

Dispositive Portion

The Supreme Court denied the petition and affirmed the RTC's June 1, 2015 Decision and October 26, 2015 Order in Civil Case No. 4813-2014-C. As a result, the findings of indirect contempt and the fines of P5,000.00 each imposed on the BIR officers remained in force.

Rizal Commercial Banking Corporation v. Intermediate Appellate Court, et al. (G.R. No. 74851, 09 December 1999)

Source: [Rizal Commercial Banking Corporation v. Intermediate Appellate Court, et al. \(1999\)](#)

Doctrine

A rehabilitation or suspension-of-payments proceeding under [P.D. No. 902-A](#), once the proper body has taken cognizance of the case, is designed to preserve the distressed corporation's assets and prevent piecemeal dissipation to the prejudice of creditors. Actions or acts that would defeat the rehabilitation process, including the unauthorized implementation of title transfers over assets under the court's or SEC's protective control, may be restrained to protect the collective rights of creditors and to keep the rehabilitation remedy effective.

Facts

BF Homes filed with the SEC a petition for rehabilitation and for suspension of payments on 28 September 1984. Among the listed creditors in its inventory of liabilities was RCBC, which had an interest in properties that later became the subject of foreclosure-related proceedings. The filing of the rehabilitation case placed BF Homes' assets within the ambit of the SEC proceeding, with the apparent objective of preventing dissipation of corporate assets while rehabilitation was ongoing.

Before the rehabilitation case could be fully resolved, RCBC pursued enforcement measures over its mortgage security. The controversy stemmed from the foreclosure of BF Homes' properties and the subsequent handling of the transfer of title in RCBC's favor. BF Homes contended that because the SEC had already assumed jurisdiction over its distressed assets, the foreclosure-related acts and transfer of titles should not proceed in a manner that would impair the rehabilitation process.

The Court of Appeals earlier ruled in BF Homes' favor by annulling the trial court judgment in the mandamus case and ordering the Register of Deeds of Pasay City to suspend the issuance of the owner's copies of the new land titles to RCBC until the matter was resolved by the SEC in SEC Case No. 002693. The appellate court's directive reflected its view that the assets should remain untouched while the rehabilitation proceeding was pending.

RCBC later informed the Supreme Court that the SEC had issued a resolution dated 16 October 1986 denying the consolidated motion to annul the auction sale and cite RCBC and the sheriff in contempt, and that the Register of Deeds thereafter effected the transfer of title and issued new titles in RCBC's name. RCBC then manifested that the case had

become moot and academic because it had already obtained the practical result it sought, although the appellate court's earlier directive had expressly ordered suspension of title issuance pending SEC resolution. The controversy thus centered on the effect of the SEC rehabilitation proceedings and the validity of acts that tended to defeat the protective purpose of those proceedings.

Petitioner's Arguments

- RCBC argued that BF Homes was not an indispensable party in the mandamus case, so its exclusion did not amount to extrinsic fraud. It maintained that the trial court and the foreclosure proceedings were valid.
- RCBC contended that SEC Case No. 002693 could not be invoked to suspend the extrajudicial foreclosure or the related civil case because these were not "actions against" BF Homes within the contemplation of [P.D. No. 902-A](#).
- RCBC further claimed that, even assuming suspension was possible, the factual basis for it no longer existed and the Regional Trial Court still had jurisdiction to act on the case.

Respondent's Arguments

- BF Homes argued that the SEC had already assumed exclusive jurisdiction over its distressed assets upon the filing of the rehabilitation petition. Thus, any foreclosure-related implementation that affected those assets should have been suspended.
- BF Homes maintained that the appellate court correctly ordered the suspension of the issuance of new titles because the assets had to remain intact during rehabilitation. This was necessary to avoid prejudice to creditors and to preserve the SEC's ability to conduct meaningful rehabilitation.
- BF Homes also asserted that, as owner of the properties, it should have been impleaded in the mandamus case so that it could protect its interests. Its exclusion, according to BF Homes, undermined the fairness of the proceedings.

Case Trail

- The Regional Trial Court rendered judgment in Civil Case No. 10042, but the Court of Appeals annulled that judgment and ordered the Register of Deeds to suspend issuance of the owner's copies of the new titles to RCBC.
- The Court of Appeals denied RCBC's motion for reconsideration.

- The SEC later denied BF Homes' contempt-related motion and also declined to restrain RCBC and the Register of Deeds from effecting consolidation of title.
- RCBC came to the Supreme Court on petition for review, later manifesting that subsequent events had effectively mooted the dispute.

Ruling of the Court

W/N the appellate court correctly ordered suspension of the issuance of new titles pending resolution of the SEC rehabilitation case -> Yes

- The Court sustained the protective approach taken by the Court of Appeals because the assets involved belonged to a distressed firm undergoing rehabilitation. The point of the suspension order was to keep the properties intact while the SEC process was ongoing.
- The Court recognized that the rehabilitation proceeding was meant to preserve BF Homes' assets so the SEC management or rehabilitation process would not be rendered inutile. Allowing the title transfers to proceed unchecked would frustrate that purpose.
- RCBC and the Register of Deeds could not simply treat the SEC's refusal to issue a restraining order in the contempt incident as authority to disregard the appellate court's earlier directive. The Court viewed their action as contumacious, because the appellate court had expressly ordered suspension until the SEC matter was resolved.
- The Court also agreed with BF Homes that, as owner, it should have been impleaded in the civil case. Its participation was necessary so that it could defend its proprietary rights over the properties subject of the dispute.
- More broadly, the Court treated the rehabilitation process as one requiring judicial and administrative restraint over acts that would alter the status of the debtor's assets. That is consistent with the policy under [P.D. No. 902-A](#) to prevent individual creditors from taking actions that defeat collective rehabilitation.
- RCBC's claim that the matter had become moot did not erase the appellate court's authority to preserve the status quo during rehabilitation. The Court noted the sequence of events but did not accept RCBC's theory that post-petition developments cured the underlying impropriety.

Dispositive Portion

The Supreme Court upheld the essential directive that BF Homes' assets should remain untouched during the rehabilitation process, thereby sustaining the appellate court's order suspending the issuance of the owner's copies of the new titles to RCBC until the SEC matter was resolved. In effect, the Court refused to countenance the immediate consolidation and registration of title in a manner that would undermine the rehabilitation proceeding and prejudice the distressed corporation and its creditors.

Sobrejuanite v. ASB Development Corporation, G.R. No. 165675, September 30, 2005

Source: [Sobrejuanite v. ASB Development Corporation \(2005\)](#)

Doctrine

A complaint for rescission of a condominium contract with refund and damages is a “claim” within the contemplation of [P.D. No. 902-A](#) and the Interim Rules on Corporate Rehabilitation when it is essentially pecuniary in nature. Thus, once the debtor corporation is under rehabilitation and a receiver has been appointed, proceedings involving such claims must be suspended to prevent preference among creditors and to allow the receiver to focus on rehabilitation.

Facts

Spouses Sobrejuanite entered into a contract to sell with [ASB Development Corporation](#) covering a condominium unit and a parking space in the BSA Twin Tower-B Condominium in Mandaluyong City. The contract required delivery of the property by December 1999, and the spouses alleged that they had fully paid the purchase price except for a remaining amount of P50,000.00 payable upon completion of construction.

After ASB allegedly failed to deliver the unit on the agreed date despite full payment and demands, the spouses filed a complaint before the [HLURB](#) on March 7, 2001 for rescission of contract, refund of P2,674,637.10 in payments, and damages. They also prayed for moral damages, exemplary damages, attorney’s fees, litigation expenses, appearance fees, and costs.

While the HLURB case was pending, ASB filed a motion to dismiss or suspend the proceedings because the [SEC](#) had already approved the rehabilitation plan of the [ASB Group of Companies](#) and appointed a rehabilitation receiver. ASB argued that the complaint was a claim that should be suspended and filed in the rehabilitation proceedings instead of being pursued separately before the HLURB.

The HLURB arbiter denied the motion and proceeded to hear the case. The arbiter ruled that ASB had failed to deliver the property on time and ordered rescission of the contract as well as payment of the refund and damages. The HLURB Board of Commissioners affirmed, holding that the case could proceed because any monetary award would simply be filed as a claim before the rehabilitation receiver.

ASB elevated the matter to the [Office of the President](#), which dismissed the appeal. ASB then went to the Court of Appeals under Rule 43. The Court of Appeals reversed, ruling that the complaint was a claim within the meaning of [P.D. No. 902-A](#) and the Interim Rules, and

that the HLURB proceedings should have been suspended upon the appointment of the rehabilitation receiver.

Petitioner's Arguments

- The spouses argued that the Court of Appeals erred in holding that the [SEC](#), and not the [HLURB](#), had jurisdiction over their complaint. They relied on [Arranza v. B.F. Homes, Inc.](#) to support HLURB jurisdiction.
- They contended that the approval of ASB's rehabilitation plan and appointment of a receiver did not suspend the HLURB case. According to them, their suit was for enforcement of contractual and statutory obligations, not a creditor's claim.
- They further argued that ASB had no right to extend the agreed date of delivery based on financial reverses, since this would amount to an unlawful novation of the contract.

Respondent's Arguments

- ASB maintained that the complaint was a pecuniary claim because it sought refund of the purchase price and monetary damages. As such, it fell within the suspension rule under [P.D. No. 902-A](#).
- ASB argued that once the rehabilitation receiver was appointed, all actions for claims against the corporation had to be suspended to avoid preference among creditors and preserve the corporation's assets for rehabilitation.
- ASB also insisted that the delivery date under the contract could be extended under the contract's own terms because the delay was caused by financial reverses beyond its control.

Case Trail

- The HLURB arbiter denied ASB's motion to suspend and ordered rescission, refund, and damages.
- The [HLURB Board of Commissioners](#) affirmed the arbiter's ruling.
- The [Office of the President](#) dismissed ASB's appeal.
- The Court of Appeals granted ASB's petition, reversed the Office of the President, and held that the HLURB proceedings should have been suspended.

Ruling of the Court

W/N the complaint for rescission, refund, and damages is a claim that should be suspended during rehabilitation -> Yes

- The Court held that the complaint was a claim within the contemplation of [P.D. No. 902-A](#) and the Interim Rules on Corporate Rehabilitation because it sought pecuniary relief. Although framed as rescission of contract, the action was anchored on refund of payments and monetary damages, which are classic debts or demands of a financial nature.
- The Court explained that “claim,” as used in the rehabilitation context, refers to debts or demands of a pecuniary nature. It reiterated the definition in [Finasia Investments and Finance Corp. v. Court of Appeals](#) and distinguished [Arranza v. B.F. Homes, Inc.](#), where the complaint was for specific performance and did not principally seek money.
- The Court stressed that the Interim Rules define “claim” broadly as all claims or demands of whatever nature or character against a debtor or its property, whether for money or otherwise. Even under the narrower earlier jurisprudence, the spouses’ complaint still qualified because the prayer clearly included refund, damages, attorney’s fees, and other monetary relief.
- Because ASB’s rehabilitation plan had been approved and a rehabilitation receiver appointed, the HLURB should have suspended the proceedings. Allowing the case to continue would have given the spouses an undue preference over other creditors and claimants, contrary to the policy of equality among creditors.
- The Court also noted that even execution of final judgments may be held in abeyance when a corporation is under rehabilitation. For that reason, there was even stronger justification to suspend a pending HLURB case involving a monetary claim.

W/N ASB was justified in extending the delivery date due to financial reverses -> Yes

- The Court agreed with the Court of Appeals that ASB was originally obliged to deliver the unit on or before December 1999. However, it found that the contract itself allowed extension of the delivery period in case of causes beyond the developer’s control.
- The Court accepted that ASB’s financial reverses fell within the contractual ground for extension. Thus, the extension of the delivery period was not treated as an unlawful novation.

- The Court did not treat this point as the central controversy, but it nonetheless affirmed the appellate court's view on this issue. The more important holding remained that the HLURB proceedings should have been suspended because the action was a pecuniary claim.

Dispositive Portion

The Supreme Court denied the petition and affirmed the Court of Appeals' decision and resolution. In effect, the Court sustained the suspension rule applicable to rehabilitation proceedings, holding that the spouses' complaint was a claim that should have been filed with the rehabilitation receiver rather than pursued separately before the [HLURB](#).

Town and Country Enterprises, Inc. v. Quisumbing, Jr., et al. | G.R. No. 173610 & 174132, 01 October 2012

Source: [Town and Country Enterprises, Inc. v. Quisumbing, Jr., et al. \(2012\)](#)

Doctrine

A creditor-mortgagee that has already acquired ownership of foreclosed property after the mortgagor's failure to redeem may validly consolidate title and obtain possession, even if rehabilitation proceedings and a stay order are later issued against the debtor corporation. The rehabilitation receiver's possession is not adverse to the creditor's right of possession, and the ministerial nature of a writ of possession is not defeated by a subsequent stay order where ownership had already vested in the purchaser before rehabilitation commenced [Town and Country Enterprises, Inc. v. Quisumbing, Jr., et al. \(2012\)](#).

Facts

Town & Country Enterprises, Inc. (TCEI) obtained loans from Metrobank in the aggregate amount of ₱12,000,000. To secure the loans, TCEI and its corporate officers executed a thrice amended real estate mortgage over twenty parcels of land covered by various transfer certificates of title in Cavite.

When TCEI failed to pay despite demand, Metrobank extrajudicially foreclosed the mortgage and sold the properties at public auction on 07 November 2001 under Act No. 3135. Metrobank emerged as the highest bidder and was issued a certificate of sale, which was later registered with the Cavite Registry of Deeds. Because TCEI did not redeem the properties within the period allowed by law, Metrobank later consolidated ownership over the foreclosed properties and titles were eventually issued in its name.

On 23 September 2002, Metrobank filed before the RTC an ex parte petition for the issuance of a writ of possession over the foreclosed properties. TCEI, however, had already filed on 01 October 2002 a petition for declaration of suspension of payments and approval of a rehabilitation plan before the same court sitting as a special commercial court. A Stay Order was issued on 08 October 2002 in the rehabilitation case, after which TCEI moved to suspend the writ of possession proceedings.

The rehabilitation court later approved TCEI's rehabilitation plan on 29 March 2004, granting a moratorium on payment of obligations and directing the rehabilitation receiver to monitor implementation of the plan. Despite this, Metrobank's ownership was reflected in new titles issued in its favor, prompting TCEI to question the validity of the title transfers and insist that the properties were under the custody of the rehabilitation receiver and therefore beyond Metrobank's reach.

TCEI challenged both the writ of possession proceedings and the cancellation of its titles. It argued that the rehabilitation receiver's possession should be respected, that the Stay Order barred further enforcement actions, and that the foreclosure consequences should not proceed while rehabilitation was ongoing. The dispute eventually reached the Supreme Court in consolidated petitions in G.R. Nos. 173610 and 174132 [Town and Country Enterprises, Inc. v. Quisumbing, Jr., et al. \(2012\)](#).

Petitioner's Arguments

- TCEI argued that the writ of possession in Metrobank's favor was invalid because the properties were already in the possession of the rehabilitation receiver after the Stay Order and approval of the rehabilitation plan.
- It claimed that the rehabilitation receiver held the properties as a third party whose possession was adverse to Metrobank, making the issuance and implementation of the writ improper.
- It also contended that the transfer and cancellation of titles in Metrobank's name were void because they were done after the Stay Order had taken effect.

Respondent's Arguments

- Metrobank maintained that it had already acquired ownership over the properties before TCEI filed for rehabilitation, because the redemption period had expired without redemption by TCEI.
- It argued that the writ of possession was a ministerial consequence of ownership after foreclosure and could not be defeated by a later Stay Order.
- It likewise asserted that the consolidation of title and issuance of new titles were valid because they followed Metrobank's prior acquisition of ownership.

Case Trail

- The RTC granted the writ of possession in favor of Metrobank.
- The rehabilitation court approved TCEI's rehabilitation plan and later denied TCEI's motion to have the titles restored in its name.
- The Court of Appeals directed the RTC to proceed with the writ of possession case and eventually affirmed the validity of Metrobank's consolidated ownership and the new titles issued in its name.
- TCEI's motion for reconsideration in the appellate proceedings was denied, prompting the consolidated petitions before the Supreme Court.

Ruling of the Court

W/N Metrobank's writ of possession and consolidation of title were barred by the Stay Order in the rehabilitation case -> No

- The Court held that Metrobank had already acquired ownership of the foreclosed properties before TCEI filed its rehabilitation petition on 01 October 2002. Although the foreclosure sale occurred on 07 November 2001, TCEI failed to redeem the property within the period recognized under [RA 8791](#), and ownership vested in Metrobank upon the lapse of the redemption period.
- The Court stressed that the later registration of the certificate of sale and the subsequent affidavit of consolidation did not alter the fact that ownership had already passed to Metrobank before the Stay Order was issued on 08 October 2002. Thus, the Stay Order could not retroactively impair rights that had already vested.
- The Court also reiterated that the issuance of a writ of possession after foreclosure is generally ministerial once the buyer's right has matured. Because Metrobank was already the absolute owner, it was entitled to possession and to have the Register of Deeds issue the corresponding titles in its name.
- The rehabilitation receiver's possession did not qualify as an adverse third-party possession that would defeat the writ of possession. The receiver is merely an officer of the court tasked to preserve the debtor's assets for the benefit of creditors and does not hold the property in a manner adverse to the rights of the foreclosing creditor.
- The Court rejected TCEI's attempt to invoke the broader implications of corporate rehabilitation, explaining that rehabilitation does not automatically strip the debtor corporation or the creditor of rights already acquired before the proceeding began. The Stay Order suspends claims against the debtor, but it does not erase completed foreclosure consequences that vested earlier.
- The Court likewise noted that even under the one-year redemption period under [Act No. 3135](#), Metrobank's consolidation still stood because TCEI did not redeem the property within that longer period either. Accordingly, the issuance of new certificates of title to Metrobank remained proper.

W/N the cancellation of TCEI's titles and issuance of new titles to Metrobank were void for violating rehabilitation proceedings -> No

- The Court explained that once the mortgagor fails to redeem foreclosed realty, consolidation of title becomes a matter of right for the buyer, and issuance of a title in the buyer's name becomes ministerial upon the Register of Deeds.
- Since Metrobank's right over the properties had already matured before the Stay Order and before approval of the rehabilitation plan, the registration of the new titles could not be undone on the theory that rehabilitation proceedings were later commenced.
- The Court rejected the claim that the rehabilitation order, being in rem, should prevail over the foreclosure process. It reasoned that rehabilitation proceedings are also summary and non-adversarial and do not diminish the status of a creditor whose ownership has already vested before the stay.
- The Court emphasized that the rehabilitation mechanism aims to restore solvency and preserve the corporate enterprise, but it does not nullify lawful foreclosure and title consolidation completed before the rehabilitation petition was filed.

Dispositive Portion

The Supreme Court denied both petitions for review on certiorari for lack of merit. It thereby sustained the validity of Metrobank's writ of possession, affirmed the consolidation of ownership and issuance of titles in Metrobank's name, and left undisturbed the rulings of the Court of Appeals and the RTC.

Metropolitan Waterworks and Sewerage System v. Daway, et al. (G.R. No. 160732, June 21, 2004)

Source: [Metropolitan Waterworks and Sewerage System v. Daway, et al. \(2004\)](#)

Doctrine

The rehabilitation court may act only on assets and obligations that properly belong to the debtor under rehabilitation; it cannot extend its stay order to third-party banks that merely issued a standby letter of credit in favor of the debtor's creditor. A standby letter of credit creates a direct, primary, and solidary obligation on the issuing banks, so claims against them may be pursued independently of the rehabilitation proceedings.

Facts

MWSS entered into a concession arrangement with Maynilad under which Maynilad was authorized to manage, operate, repair, decommission, and refurbish the existing MWSS water delivery and sewerage services in the West Zone Service Area. As part of the agreement, Maynilad undertook to pay the corresponding concession fees on agreed dates, and those fees included payments for MWSS's mostly foreign loans. To secure Maynilad's performance of its obligations, the concession agreement required it to post a bond, bank guarantee, or other acceptable security in favor of MWSS.

To comply with that requirement, Maynilad obtained on July 14, 2000 a three-year facility from a number of foreign banks led by Citicorp International Limited for the issuance of an irrevocable standby letter of credit in the amount of US\$120,000,000. The standby letter of credit was issued in favor of MWSS as security for Maynilad's full and prompt performance of its obligations under the concession agreement. The banks undertook to honor MWSS's written certification in accordance with the terms of the credit facility.

On November 17, 2003, Maynilad filed a petition for rehabilitation with prayer for suspension of actions and proceedings before the RTC of Quezon City, Branch 90. The RTC initially found the petition to be substantially sufficient in form and substance and issued a stay order that, among others, suspended the enforcement of all claims against Maynilad and prohibited the disposition of its properties except in the ordinary course of business.

Thereafter, on November 27, 2003, upon Maynilad's urgent ex parte motions, the RTC issued another order that expanded the coverage of the stay order. The challenged order effectively included the banks that issued the standby letter of credit, preventing MWSS from drawing on the credit facility despite the fact that the issuing banks were not themselves the rehabilitation debtor. MWSS challenged the RTC's action, arguing that the

court had no authority to restrain the banks' separate and independent undertaking under the standby letter of credit.

Petitioner's Arguments

- MWSS argued that the standby letter of credit was not an asset of Maynilad and therefore could not be covered by the stay order in the rehabilitation case. It maintained that the issuing banks had a separate obligation to MWSS that could not be suspended by the rehabilitation court.
- It further contended that the RTC gravely abused its discretion in extending the stay order to the banks, even if the banks were not parties to the rehabilitation as debtors. Based on internal knowledge of Philippine law, MWSS relied on the independence principle governing letters of credit.

Respondent's Arguments

- Maynilad maintained that the stay order was proper because the standby letter of credit was related to its rehabilitation and the concession arrangement. It argued that the RTC was justified in preserving the status quo while the rehabilitation petition was pending.
- It also contended, in substance, that the security arrangement should not be allowed to be drawn upon in a manner that would defeat the rehabilitation proceedings. Maynilad treated the credit facility as functionally linked to its obligations under the concession.

Case Trail

- The RTC of Quezon City, Branch 90, initially found Maynilad's rehabilitation petition sufficient in form and substance and issued a stay order.
- The RTC later issued a questioned order extending the stay to matters involving the standby letter of credit.
- MWSS elevated the matter to the Supreme Court by special civil action, assailing the RTC's authority to restrain the banks.

Ruling of the Court

W/N the rehabilitation court had jurisdiction to include the issuing banks and restrain MWSS from drawing on the standby letter of credit -> No

- The Court held that the rehabilitation court's authority extends only to the debtor and its property that properly form part of the rehabilitation estate. A standby letter of credit, however, is not an asset of the debtor

Panlilio v. Regional Trial Court, Branch 51, Manila

Source: [Panlilio v. Regional Trial Court, Branch 51, Manila \(2011\)](#)

Doctrine

A stay order issued in corporate rehabilitation proceedings suspends claims against the debtor corporation, but it does not suspend criminal actions filed against its officers. Criminal prosecutions are not “claims” within the contemplation of rehabilitation rules because they seek to vindicate public wrongs and impose penal liability, not to enforce a monetary or property claim against the corporation.

Facts

The petitioners, who were corporate officers of Silahis International Hotel, Inc. (SIHI), initiated rehabilitation proceedings for the corporation before the RTC of Manila, Branch 24. On 18 October 2004, that court issued a stay order after finding the rehabilitation petition sufficient in form and substance. The order stayed the enforcement of all claims, whether for money or otherwise, against SIHI, its guarantors, and sureties not solidarily liable with the debtor.

At the time the rehabilitation petition was filed, separate criminal cases were already pending against the petitioners before the RTC of Manila, Branch 51. These cases were initiated by the Social Security System and charged violations of Sec. 28(h) of [RA 8282](#), the [Social Security Act of 1997](#), in relation to estafa under the [Revised Penal Code](#). The criminal charges were filed against the petitioners in their individual capacities as corporate officers.

The petitioners then filed a manifestation and motion to suspend proceedings in Branch 51, arguing that the stay order issued by Branch 24 should likewise cover the criminal cases. They asked that the criminal proceedings be suspended until the rehabilitation case was finally resolved. Branch 51 denied the motion on 13 December 2004, ruling that the stay order did not extend to criminal actions.

The petitioners elevated the matter, insisting that the criminal cases should remain suspended because they arose from the same corporate distress that was the subject of the rehabilitation case. The case eventually reached the Supreme Court through a petition for review on certiorari under Rule 45, assailing the Court of Appeals’ rulings that sustained Branch 51’s denial of the motion to suspend proceedings.

Petitioners’ Arguments

- The stay order issued in the rehabilitation case should suspend all proceedings against SIHI and its officers, including the pending criminal cases. They argued that allowing the criminal cases to proceed would undermine the rehabilitation process.
- The criminal charges were allegedly connected to the corporate obligations of SIHI. Petitioners maintained that the rehabilitation court's stay order should be interpreted broadly to cover these cases as well.

Respondent's Arguments

- The stay order did not apply to criminal prosecutions because such cases are not "claims" covered by rehabilitation rules. The criminal cases were directed against the petitioners personally, not against SIHI as debtor.
- The criminal actions could proceed independently of the rehabilitation case because they involved penal liability and public interest. The respondents maintained that the rehabilitation proceedings could not be used to shield officers from criminal accountability.

Case Trail

- The RTC of Manila, Branch 24, granted SIHI's rehabilitation petition and issued a stay order on 18 October 2004.
- The RTC of Manila, Branch 51, denied petitioners' motion to suspend the criminal proceedings.
- The Court of Appeals sustained the RTC's ruling.
- The petitioners then sought review before the Supreme Court.

Ruling of the Court

W/N the stay order in the corporate rehabilitation case suspended the criminal cases against SIHI's officers -> No

- The Court held that the stay order applied only to "claims" against the debtor corporation and related persons covered by the rehabilitation rules, not to criminal prosecutions. A criminal case is not a claim for money or property; it is an action to punish an offense against the State.
- The Court emphasized the distinction between civil liabilities arising from a criminal act and the criminal liability itself. While rehabilitation may stay the enforcement of claims, it does not erase or suspend the State's power to prosecute offenses committed by corporate officers.

- The Court relied on the text of the applicable rehabilitation rules, particularly the provision stating that criminal actions against an individual debtor or owner, partner, director, or officer are not affected by the rehabilitation proceeding. This language made clear that the stay order could not be stretched to include the pending criminal cases.
- The Court further explained that the policy of corporate rehabilitation is to give the distressed corporation breathing space to recover, not to grant immunity to its officers from criminal accountability. The pendency of rehabilitation therefore did not bar Branch 51 from proceeding with the criminal cases.

Dispositive Portion

The Supreme Court denied the petition and affirmed the Court of Appeals' ruling. It held that the RTC of Manila, Branch 51, was ordered to proceed with the criminal cases against the petitioners, as the rehabilitation stay order did not suspend those prosecutions.

Philippine Asset Growth Two, Inc. and Planters Development Bank v. Fastech Synergy Philippines, Inc., et al. (G.R. No. 206528, 28 June 2016)

Source: Philippine Asset Growth Two, Inc. and Planters Development Bank v. Fastech Synergy Philippines, Inc., et al. (2016)

Doctrine

A rehabilitation plan must satisfy the minimum statutory and rule-based requirements, including material financial commitments and a proper liquidation analysis, before a court may approve it. Rehabilitation is meant to restore a debtor to solvency as a going concern, not to grant financial reprieves that merely delay creditors' rights at their expense.

Facts

The Fastech corporations—Fastech Synergy Philippines, Inc., Fastech Microassembly & Test, Inc., Fastech Electronique, Inc., and Fastech Properties, Inc.—filed a joint petition for corporate rehabilitation before the RTC of Makati City on 8 April 2011. They alleged that they were effectively managed by the same persons, shared common assets, and had common creditors and liabilities, which justified a consolidated rehabilitation proceeding.

Among their creditors was Planters Development Bank, which had earlier filed an extrajudicial foreclosure proceeding over two parcels of land registered in the name of Fastech Properties. The foreclosure sale was conducted on 13 April 2011, with Planters Bank emerging as the highest bidder. The Fastech corporations claimed that the foreclosure adversely affected their chance to recover from their financial losses because the properties were used in the operations of Fastech Microassembly and Fastech Electronique, and were also a source of revenue for Fastech Properties.

In their proposed rehabilitation plan, the Fastech corporations sought a two-year grace period for payment of principal, waiver of accrued interests and penalties, capitalization of interests during the grace period, and reduced interest rates thereafter. They presented their rehabilitation petition as a way to continue their business operations, meet obligations over time, and preserve value for creditors and stakeholders. The RTC initially issued a Commencement Order with Stay Order on 19 April 2011 and appointed Atty. Rosario Bernaldo as Rehabilitation Receiver.

After due course was given to the petition and the parties submitted their respective comments, oppositions, and revised rehabilitation plan, the Rehabilitation Receiver submitted reports favorable to rehabilitation. She opined that the corporations could be successfully rehabilitated because their assets appeared sufficient to cover liabilities and the plan's assumptions, financial projections, and procedures were, in her view, workable.

Despite this, the RTC dismissed the petition in a 9 December 2011 Resolution, relying on the unreliability of the financial statements submitted and the absence of credible support for the revised projections.

The Fastech corporations appealed to the Court of Appeals, which later issued a TRO and then a writ of preliminary injunction to preserve the status quo while the appeal was pending. The CA eventually reversed the RTC on 28 September 2012, approved the rehabilitation plan, reinstated the petition, and remanded the case to the RTC for supervision of implementation. It also permanently enjoined Planters Bank from foreclosing the subject properties during implementation of the plan. Planters Bank moved for reconsideration, but this was denied on 5 March 2013. Philippine Asset Growth Two, Inc. later sought to be substituted as petitioner after acquiring Planters Bank's interests in the case.

Petitioner's Arguments

The petition for review on certiorari was timely filed only if reckoned from the date DivinaLaw, the lead counsel, received the CA resolution. They argued that service on collaborating counsel should not bind them for purposes of appeal.

The rehabilitation plan was allegedly unfeasible because it relied on misleading financial statements and unsupported financial projections. Petitioners maintained that the plan lacked real substance and merely deferred the corporations' obligations.

The CA supposedly erred in approving rehabilitation despite the absence of reliable proof that the corporations could genuinely recover. Petitioners insisted that the plan did not satisfy the legal standards for corporate rehabilitation.

Respondent's Arguments

The petition was already late because notice to one counsel of record, including collaborating counsel, is notice to the party. Respondents argued that receipt by Janda Asia & Associates started the running of the appeal period.

The rehabilitation plan was viable and consistent with the purpose of rehabilitation because it would allow the corporations to continue operating, pay creditors over time, and preserve jobs and business value. The Rehabilitation Receiver's favorable report supported this conclusion.

Respondents also maintained that the CA correctly found the plan feasible and that the corporations had already made payments under the plan. They argued that implementation showed the practical soundness of rehabilitation.

Case Trial

The RTC of Makati City dismissed the rehabilitation petition on 9 December 2011.

The CA issued a TRO on 24 January 2012 and later a writ of preliminary injunction on 22 March 2012.

The CA reversed the RTC on 28 September 2012, approved the rehabilitation plan, and remanded the case for supervision of implementation.

The CA denied reconsideration on 5 March 2013.

Ruling of the Court

W/N the petition for review on certiorari was timely filed -> No

The Court held that where a party is represented by several counsels, notice to one counsel of record is notice to all. Since Janda Asia & Associates remained counsel of record and received the CA resolution on 12 March 2013, the 15-day period to appeal started from that date, not from DivinaLaw's later receipt.

On that basis, the petition filed on 18 April 2013 was filed out of time. The Court also noted that PAGTI's motion for substitution had not yet been resolved, so it remained bound by the proceedings and judgment against Planters Bank.

Although failure to perfect an appeal usually makes the judgment final and executory, the Court relaxed the rule in the higher interest of substantial justice. It did so because the rehabilitation order was found to be unjustified and should not be allowed to stand.

W/N the Rehabilitation Plan was feasible and compliant with the rules -> No

The Court reiterated that rehabilitation under FRIA means restoring the debtor to successful operation and solvency, only if continued operation is economically feasible and creditors recover more through rehabilitation than liquidation. Rehabilitation is therefore not intended to be a vehicle for postponing payment indefinitely.

Under Section 18, Rule 3 of the 2008 Rules of Procedure on Corporate Rehabilitation, a plan must include material financial commitments and a liquidation analysis. The Court found that the Fastech plan had neither.

On material financial commitment, the Court ruled that respondents proposed no real capital infusion or binding third-party support. Their plan merely sought waivers of penalties and interests and a grace period, which were viewed as financial reprieves rather than true rehabilitation support.

The alleged investments from unnamed customers were too vague and unverified to qualify as legally binding commitments. The Court emphasized that nothing short of concrete, enforceable investment undertakings would satisfy the rule.

On liquidation analysis, the plan failed to show the creditors' projected recovery under liquidation versus rehabilitation. Without that analysis, the Court could not determine whether rehabilitation would actually provide a better present value recovery for creditors.

The Court further examined the financial documents and found them wanting. The audited statements showed insufficient cash operating position, current assets lower than current liabilities, and unreliable assumptions; the unaudited statements were unsupported and incomplete.

The revised plan also required front-loaded capital expenditures, which would further strain cash flow. This undermined the claim that the corporations had a realistic path to viability.

The Court held that the Rehabilitation Receiver's favorable opinion could not substitute for the court's independent duty to determine feasibility. The receiver assists in evaluating and implementing rehabilitation, but the final determination remains with the court.

Ultimately, the Court found no reasonable probability that the corporations could be revived under the proposed plan. Because the plan appeared to protect the debtors at the expense of creditors and lacked the requisites of feasibility, rehabilitation was denied.

Dispositive Portion

The Court granted the petition, reversed and set aside the CA's 28 September 2012 Decision and 5 March 2013 Resolution, and dismissed the Joint Petition for corporate rehabilitation filed by the Fastech corporations before the RTC of Makati City, Branch 149. In effect, the Court held that the rehabilitation plan could not be approved and that the corporations were not entitled to the rehabilitation remedy on the record before it.

Pryce Corporation v. China Banking Corporation, February 18, 2014, G.R. No. 172302

Source: [Pryce Corporation v. China Banking Corporation \(2014\)](#)

Doctrine

A final judgment in a corporate rehabilitation case binds not only the parties who actively litigated the appeal but also other creditors who share a substantial identity of interest in the same rehabilitation controversy. The approved rehabilitation plan, once final, is binding on all creditors under the cram-down principle, and the rehabilitation court need not conduct a hearing before issuing a stay order so long as the petition is sufficient in form and substance.

Facts

Pryce Corporation filed a petition for corporate rehabilitation with the Regional Trial Court of Makati, Branch 138, on July 9, 2004. It sought, among others, the appointment of a rehabilitation receiver and the stay of all claims against it while its rehabilitation plan was being evaluated.

The rehabilitation court initially found the petition sufficient in form and substance and issued a stay order on July 13, 2004 appointing a rehabilitation receiver. It later gave due course to the petition and directed the receiver to evaluate Pryce's proposed rehabilitation plan. After evaluation, the receiver submitted an amended rehabilitation plan, which the court approved on January 17, 2005, finding Pryce eligible for corporate rehabilitation and laying down the manner by which its assets would be disposed of and its liabilities liquidated.

China Banking Corporation, one of Pryce's creditors, questioned the January 17, 2005 order before the Court of Appeals. It argued that the rehabilitation plan impaired contractual obligations, that the commercial court had no authority to render valid contractual stipulations ineffective, and that the approved plan unlawfully allowed dacion en pago of Pryce's properties without the bank's consent.

Bank of the Philippine Islands, another creditor, filed a separate petition assailing the same rehabilitation court order. That separate case eventually reached the Supreme Court as G.R. No. 180316. Pryce later argued that the ruling in that case had already settled the validity of the January 17, 2005 rehabilitation order and therefore barred further litigation on the same issue.

Petitioner's Arguments

- Pryce argued that the issue on the validity of the January 17, 2005 rehabilitation order had become res judicata because of the final ruling in BPI v. Pryce Corporation, G.R. No. 180316. It insisted that the later final judgment precluded China Bank from relitigating the same matter.
- Pryce also contended that Rule 4, Sec. 6 of the Interim Rules of Procedure on Corporate Rehabilitation does not require a hearing before the issuance of a stay order. According to Pryce, the later adoption of the Interim Rules displaced the older “serious situations” test in [Rizal Commercial Banking Corp. v. IAC](#).

Respondent’s Arguments

- China Bank maintained that the approved rehabilitation plan violated the constitutional non-impairment clause. It claimed that neither [PD 902-A](#) nor the [Interim Rules](#) authorized commercial courts to nullify valid contractual stipulations.
- It further argued that the plan’s approval, particularly the dacion en pago arrangement, violated mutuality of contracts and due process. China Bank said it was unfairly deprived of its contractual rights as a secured creditor.

Case Trail

- The rehabilitation court issued a stay order on July 13, 2004 and appointed a rehabilitation receiver.
- It later gave due course to the petition and received the receiver’s amended rehabilitation plan.
- On January 17, 2005, the rehabilitation court approved the amended rehabilitation plan and found Pryce eligible for rehabilitation.
- China Bank assailed the order before the Court of Appeals, which ruled against Pryce in the earlier appellate proceedings.

Ruling of the Court

W/N the January 17, 2005 rehabilitation order had become res judicata in light of G.R. No. 180316 -> Yes.

- The Court held that the final judgment in BPI v. Pryce Corporation bound not only BPI but also China Bank, because res judicata does not require absolute identity of parties. Substantial identity is sufficient when the parties are litigating in the same capacity and have a community of interest in the subject matter.

- The Court found that China Bank and BPI were both creditors of Pryce and were both challenging the same rehabilitation order involving the same subject matter. Their interest and position in the controversy were substantially identical.
- The Court explained that the final ruling in G.R. No. 180316 necessarily covered the validity of the January 17, 2005 order approving the amended rehabilitation plan. Since that order had already become final and executory, it bound all creditors, including China Bank.
- The Court also stressed the cram-down principle under the [Interim Rules](#), under which a rehabilitation plan approved by the court binds all affected persons, whether or not they participated in the proceedings or opposed the plan. Thus, the approved plan could not be reopened by a separate creditor challenge.

W/N the rehabilitation court was required to hold a hearing before issuing the stay order -> No.

- The Court ruled that the Interim Rules only require that the rehabilitation petition be sufficient in form and substance before a stay order may issue. A hearing is not a condition precedent to the issuance of such stay order.
- Pryce's reliance on the older "serious situations" test was rejected because the governing procedural framework had already shifted to the Interim Rules. The Court treated the sufficiency-in-form-and-substance standard as controlling.
- The Court reaffirmed the doctrine earlier recognized in rehabilitation cases that the stay order mechanism is meant to preserve the status quo while the petition is being evaluated. Requiring a prior hearing would defeat the purpose of prompt rehabilitation relief.
- In effect, the Court sustained the validity of the stay order because the rehabilitation court had acted within the procedural requirements then applicable. The lack of a prior hearing did not invalidate the order.

W/N the approved rehabilitation plan could bind China Bank despite its objections -> Yes.

- The Court ruled that the approved amended rehabilitation plan was binding on all creditors by operation of the cram-down principle. This includes creditors who opposed the plan or did not participate in the earlier proceedings.

- It held that the rehabilitation framework allows court approval of a plan even over creditor opposition if rehabilitation is feasible and the opposition is manifestly unreasonable. Once approved, the plan has binding effect on all affected parties.
- The Court rejected the argument that the plan necessarily violated contractual obligations. In rehabilitation proceedings, the law permits restructuring measures that adjust creditor claims in order to preserve the debtor as a going concern.
- Accordingly, China Bank could not insist on invalidating the approved plan merely because it disagreed with the treatment of its claims. The final rehabilitation order had the force to bind it as one of Pryce's creditors.

Dispositive Portion

The Court denied Pryce's second motion for reconsideration and upheld the finality and binding effect of the January 17, 2005 order approving the amended rehabilitation plan. It effectively affirmed that the rehabilitation order bound all creditors, including China Bank, and that no prior hearing was required for the stay order under the applicable Interim Rules.