



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

PHILIPPINE WIRELESS, INC. G.R. No. 208251
and REPUBLIC
TELECOMMUNICATIONS,
INC.,

Petitioners,

Present:

PERALTA, C.J.,
Chairperson,
 CAGUIOA,
 CARANDANG,
 ZALAMEDA, and
 GAERLAN, JJ.

- versus -

OPTIMUM DEVELOPMENT
BANK (formerly CAPITOL
DEVELOPMENT BANK),

Respondent.

Promulgated:

NOV 10 2020

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DECISION

CARANDANG, J.:

Before this Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court (Rules), assailing the Decision² dated April 17, 2013 and the Resolution³ dated July 16, 2013 of the Court of Appeals (CA) in CA-G.R. CV No. 92685 denying the appeal of petitioners Philippine Wireless, Inc. (PWI) and Republic Telecommunications, Inc. (RETELCO) for lack of merit.

Antecedents

In August 1997, PWI entered into a Credit Agreement with respondent Capitol Development Bank (Capitol), availing a ₱20,000,000.00 credit

¹ Rollo, pp. 7-20.

² Penned by Associate Justice Sesinando E. Villon, with the concurrence of Associate Justices Florito S. Macalino and Pedro B. Corales; id. at 26-34.

³ Id. at 35.

facility from Capitol secured by the corporate suretyship of RETELCO. In the Continuing Suretyship Agreement RETELCO executed, it undertook to jointly and severally pay with PWI the obligation PWI may incur pursuant to the Credit Agreement.⁴

On September 11, 1997, PWI borrowed ₱10,000,000.00 from Capitol, payable on October 13, 1997 at 36% interest rate *per annum* under Account No. COM 735. The next day, or on September 12, 1997, PWI borrowed another ₱10,000,000.00 from Capitol, payable on October 13, 1997 at 36% interest rate *per annum* under Account No. COM 735-A.⁵

When the loans matured, PWI requested for several extensions to pay the loans. Capitol agreed, on the condition that the interests corresponding to the extension period be paid by PWI. After several extensions, the maturity date of the loans became May 13, 1998.⁶

Meanwhile, in February 1998, Capitol extended another loan to PWI in the amount of ₱2,200,000.00 payable on June 4, 1998 at 32.53% interest *per annum* under Account No. COM-735-B.⁷

As of June 10, 1998, PWI's unpaid loans under Account Nos. COM 735, COM 735-A, and COM 735-B amounted to ₱23,363,378.73. Thus, on June 15, 1998, Capitol demanded payment from PWI. Capitol also demanded payment from RETELCO pursuant to the Continuing Suretyship Agreement. However, despite repeated demands, PWI and RETELCO failed to pay their outstanding obligations that had already ballooned to ₱24,669,709.40 as of July 10, 1998. Thus, Capitol instituted a Complaint for collection of a sum of money docketed as Civil Case No. 66906 in the Regional Trial Court (RTC) of Pasig.⁸

In their Answer, PWI and RETELCO argued that Capitol is estopped from proceeding with the collection case as it was aware of the possible restructuring or repayment plan to settle all of PWI's debts. PWI and RETELCO also raised that the collection case was not instituted in the name of the real party-in-interest.⁹

Ruling of the Regional Trial Court

On September 15, 2008, the RTC of Pasig rendered its Decision, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff:

⁴ Id. at 26-27.
⁵ Id. at 27.
⁶ Id.
⁷ Id.
⁸ Id. at 28.
⁹ Id.

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1. **ORDERING** defendants jointly and severally, to pay the plaintiff the amount of Php 24,669,709.40 with 6% legal interest from July 16, 1998 until full payment, as actual damages.
2. **ORDERING** defendants jointly and severally, to pay plaintiff attorney's fees equivalent to 10% of the entire obligation.
3. Cost of the suits.

SO ORDERED.¹⁰ (Emphasis in the original)

Thereafter, PWI and RETELCO filed an appeal under Rule 41 of the Rules seeking to reverse and set aside the Decision dated September 15, 2008 of the RTC of Pasig.¹¹

On August 20, 2009, while the appeal under Rule 41 of the Rules of PWI and RETELCO was pending before the CA, PWI and RETELCO instituted a petition for corporate rehabilitation with the RTC of Makati docketed as Special Proceeding No. M-6853.¹²

On August 24, 2009, the RTC of Makati (rehabilitation court) issued a Stay Order,¹³ the dispositive portion of which states:

IN VIEW OF THE FOREGOING, this Court issues a Stay Order, in accordance with Section 7, Rule 2 of the aforesaid Rules of Procedure on Corporate Rehabilitation, as follows:

1. Appointing **Atty. Pamela Barbara D. Quizon-Labayen with address at Unit 410 Cornell St., Southpointe Townhomes, Merville, Paranaque City**, as rehabilitation receiver who shall be considered as an officer of the court and who shall have the powers, duties and functions as provided in Section 12, Rule 3 of the aforesaid Rules of Procedure on Corporate Rehabilitation. The rehabilitation receiver must post a bond of Php 1,000,000.00 before entering upon his powers, duties and functions and must take an oath, as provided under Section 13, Rule 3 of the aforesaid Rules. The petitioners is [sic] directed to serve immediately a copy of this Stay Order upon the rehabilitation receiver, **Atty. Pamela Barbara D. Quizon-Labayen** who shall manifest her acceptance or non-acceptance of her appointment to this Court not later than ten (10) days from receipt hereof;
2. Staying enforcement of all claims, whether for money or otherwise and whether such enforcement by this court, action or otherwise, against the petitioners, and its guarantors and sureties not solidarily liable with the petitioners;
3. Prohibiting the petitioners from selling, encumbering,

¹⁰ Id. at 29.

¹¹ Id. at 26.

¹² Id. at 29.

¹³ Penned by Presiding Judge Joselito C. Villarosa; id. at 36-39.

transferring or disposing in any manner any of the properties except in the ordinary course of business;

4. Prohibiting the petitioners from making any payment of its liabilities outstanding as of the date of filing of the verified Petition on **August 20, 2009**;

5. Prohibiting the suppliers of the petitioners from withholding supply of goods or services in the ordinary course of business for as long as the petitioners makes [sic] payments for the services and goods supplied after the issuance of the Stay Order.

6. Directing the petitioners to pay in full all administrative expenses incurred after the issuance of this Stay Order.

x x x¹⁴ (Emphasis in the original; underscoring supplied)

However, Atty. Labayen failed to manifest her acceptance or non-acceptance of her appointment as rehabilitation receiver. In an Order¹⁵ dated October 21, 2009, the rehabilitation court appointed Atty. Lito A. Mondragon in her stead. On December 7, 2009, Atty. Mondragon took his oath as rehabilitation receiver¹⁶ of PWI and RETELCO.¹⁷

On February 12, 2010, PWI and RETELCO filed a Manifestation with Motion with the CA seeking the suspension of the appellate proceedings in accordance with the 2008 Rules of Procedure on Corporate Rehabilitation¹⁸ (2008 Rehabilitation Rules) which was granted in a Resolution dated August 20, 2010.¹⁹

The CA directed PWI and RETELCO to give an update on the status of the rehabilitation proceedings. In their Manifestation dated December 20, 2010, PWI and RETELCO reported that the rehabilitation receiver had already filed a Rehabilitation Receiver's Report dated November 24, 2010. Also, in their Compliance dated July 12, 2011, PWI and RETELCO manifested that an Order²⁰ dated April 1, 2011 was issued by the rehabilitation court in Special Proceeding No. M-6853, approving the Rehabilitation Plan they submitted. Three sets of creditors filed their Petition for Review with the CA assailing the grant of the petition for corporate rehabilitation and seeking the nullification of the approved rehabilitation plan.²¹

Thereafter, in the appealed case, the CA issued a Minute Resolution dated August 9, 2011 ordering the resumption of the appellate proceedings in the collection case and for PWI and RETELCO to submit their Appellants' Brief.²²

¹⁴ Id. at 37-38.

¹⁵ Id. at 40.

¹⁶ Id. at 41.

¹⁷ Id.

¹⁸ A.M. No. 00-08-10, December 2, 2008.

¹⁹ *Rollo*, p. 30.

²⁰ Id. at 42-60.

²¹ Id. at 30.

²² Id.

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Ruling of the Court of Appeals

On April 17, 2013, the CA rendered its Decision,²³ the dispositive portion of which states:

WHEREFORE, premises considered, the present appeal is **DENIED** for lack of merit. The assailed Decision dated September 15, 2008 rendered by the Regional Trial Court, Branch 71, Pasig City in Civil Case No. 66906, is hereby **AFFIRMED**.

SO ORDERED.²⁴ (Emphasis in the original)

In affirming the ruling of the RTC, the CA pointed out that the petition for corporate rehabilitation was only initiated after the RTC of Pasig rendered the appealed Decision. For the CA, it did not err in continuing with the appellate proceedings because the Rehabilitation Plan of PWI and RETELCO was approved in a petition for corporate rehabilitation initiated after the decision in the collection case was appealed to the CA.²⁵ The CA also noted the three petitions for review separately filed with the CA assailing the rehabilitation court's Order dated April 1, 2011 approving the Rehabilitation Plan. The CA opined that the rehabilitation court's Order dated April 1, 2011 is not yet final so as to adversely affect the appellate proceedings in the collection case because the three petitions for review can still be granted or denied by the CA and raised to the Court.²⁶

The CA also ruled that Capitol is a real party-in-interest as it stands to be benefited or injured by any judgment in the case.²⁷ The CA also held that Capitol is not barred from proceeding with the collection case despite its alleged knowledge of the existence of a steering committee created to prepare a restructuring plan to settle PWI's debts. The CA explained that the principle of estoppel cannot be applied because Capitol did not make any admission or representation which would make PWI and RETELCO believe that the bank will no longer enforce the loan obligations against them.²⁸ Lastly, the CA declared that PWI and RETELCO cannot renege on their loan obligations and simply invoke the existence of "[']circumstances beyond its control['] or [']acts of God[']"²⁹ to justify non-payment of their loan obligations without establishing entitlement to such exemption.³⁰

In a Resolution³¹ dated July 16, 2013, the CA denied the Motion for Reconsideration PWI and RETELCO filed for lack of merit.

²³ Supra note 2.
²⁴ *Rollo*, p. 34.
²⁵ Id. at 31.
²⁶ Id.
²⁷ Id. at 32.
²⁸ Id. at 32-33.
²⁹ Id. at 33.
³⁰ Id.
³¹ Supra note 3.

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In the present petition, PWI and RETELCO argue that the stay order contemplated in Section 7, Rule 3 of the 2008 Rehabilitation Rules,³² which was carried over to Section 7(b) of Republic Act No. (R.A.) 10142 or the Financial Rehabilitation and Insolvency Act of 2010,³³ covers all actions for claims against a corporation pending before any court, tribunal or board. They emphasize that these claims shall be suspended in whatever stage they may be found upon the appointment of a rehabilitation receiver.³⁴ Citing various jurisprudence, PWI and RETELCO maintain that all monetary claims against a distressed corporation, without distinction, are suspended pending the rehabilitation proceedings.³⁵

³² Rule 3 – *General Provisions*.

x x x x

Section 7. *Stay Order*. – If the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) working days from the filing of the petition, issue an order: (a) appointing a rehabilitation receiver and fixing his bond; (b) staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and persons not solidarily liable with the debtor; provided, that the stay order shall not cover claims against letters of credit and similar security arrangements issued by a third party to secure the payment of the debtor's obligations; provided, further, that the stay order shall not cover foreclosure by a creditor of property not belonging to a debtor under corporate rehabilitation; provided, however, that where the owner of such property sought to be foreclosed is also a guarantor or one who is not solidarily liable, said owner shall be entitled to the benefit of exclusion as such guarantor; (c) prohibiting the debtor from selling, encumbering, transferring, or disposing in any manner any of its properties except in the ordinary course of business; (d) prohibiting the debtor from making any payment of its liabilities except as provided in items (e),(f) and (g) of this Section or when ordered by the court pursuant to Section 10 of Rule 3; (e) prohibiting the debtor's suppliers of goods or services from withholding supply of goods and services in the ordinary course of business for as long as the debtor makes payments for the services and goods supplied after the issuance of the stay order; (f) directing the payment in full of all administrative expenses incurred after the issuance of the stay order; (g) directing the payment of new loans or other forms of credit accommodations obtained for the rehabilitation of the debtor with prior court approval; (h) fixing the dates of the initial hearing on the petition not earlier than forty-five (45) days but not later than sixty (60) days from the filing thereof; (i) directing the petitioner to publish the Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; (j) directing the petitioner to furnish a copy of the petition and its annexes, as well as the stay order, to the creditors named in the petition and the appropriate regulatory agencies such as, but not limited to, the Securities and Exchange Commission, the Bangko Sentral ng Pilipinas, the Insurance Commission, the National Telecommunications Commission, the Housing and Land Use Regulatory Board and the Energy Regulatory Commission; (k) directing the petitioner that foreign creditors with no known addresses in the Philippines be individually given a copy of the stay order at their foreign addresses; (l) directing all creditors and all interested parties (including the regulatory agencies concerned) to file and serve on the debtor a verified comment on or opposition to the petition, with supporting affidavits and documents, not later than fifteen (15) days before the date of the first initial hearing and putting them on notice that their failure to do so will bar them from participating in the proceedings; and (m) directing the creditors and interested parties to secure from the court copies of the petition and its annexes within such time as to enable themselves to file their comment on or opposition to the petition and to prepare for the initial hearing of the petition.

The issuance of a stay order does not affect the right to commence actions or proceedings insofar as it is necessary to preserve a claim against the debtor.

³³ Section 7. *Substantive and Procedural Consolidation*. – Each juridical entity shall be considered as a separate entity under the proceedings in this Act. Under these proceedings, the assets and liabilities of a debtor may not be commingled or aggregated with those of another, unless the latter is a related enterprise that is owned or controlled directly or indirectly by the same interests: Provided, however, That the commingling or aggregation of assets and liabilities of the debtor with those of a related enterprise may only be allowed where:

x x x x

(b) the debtor and the related enterprise have common creditors and it will be more convenient to treat them together rather than separately;

³⁴ *Rollo*, pp. 13-14.

³⁵ *Id.* at 14-19.



In its Comment,³⁶ Capitol, now called Optimum Development Bank (Optimum), highlights that the RTC of Pasig could no longer suspend the collection case when the Stay Order³⁷ was issued on August 24, 2009. The Decision dated September 15, 2008 of the RTC of Pasig was already appealed on October 28, 2008 by PWI and RETELCO to the CA.³⁸ Even assuming *arguendo* that proceedings are still pending before the RTC of Pasig, Optimum posits that the RTC of Pasig was justified in not suspending the proceedings because the Stay Order merely enjoins the enforcement of claims and not its determination.³⁹ Optimum stresses that, just like the appeal PWI and RETELCO made to the CA, the present petition does not impugn the determination by the RTC of Pasig of PWI and RETELCO's liability. What is only being questioned is the propriety of suspending the proceedings in light of the Stay Order.⁴⁰ In the present case, Optimum insists that the Stay Order was only issued a year after the Decision of the RTC of Pasig was rendered and after the decision was appealed.⁴¹ Optimum also maintains that the CA is justified in resuming the appellate proceedings since the collection case has been pending for more than 15 years already.⁴² Optimum argues that continuing the appellate proceedings would not unduly hinder or prevent the rehabilitation of PWI. Optimum also notes that the timing of the filing of the petition for rehabilitation, 11 years after the filing of the collection case by Capitol, is suspicious.⁴³

In their Reply,⁴⁴ PWI and RETELCO clarify that it is the appeal pending before the CA that they are asking the Court to suspend. PWI and RETELCO also reiterate that a stay order suspends all actions for claims against a corporation under rehabilitation in whatever stage they may be and wherever they may be pending, including one that is pending appeal before the CA. PWI and RETELCO also add that the suspension covers all claims of a pecuniary nature such as the present collection case.⁴⁵

The parties submitted their memoranda⁴⁶ reiterating their respective positions.

Issue

The issue to be resolved is whether the appellate proceedings assailing the money judgment the RTC of Pasig rendered in a collection case against PWI and RETELCO may be suspended by a stay order issued in a petition for rehabilitation PWI and RETELCO initiated after the decision on the collection case was appealed.

³⁶ Id. at 67-72.
³⁷ Supra note 15.
³⁸ *Rollo*, p. 68.
³⁹ Id. at 68-69.
⁴⁰ Id. at 71.
⁴¹ Id. at 69.
⁴² Id. at 70.
⁴³ Id. at 71.
⁴⁴ Id. at 81-87.
⁴⁵ Id. at 82-86.
⁴⁶ Id. at 106-123, 130-143.



Ruling of the Court

The petition is not meritorious.

The collection case instituted by the creditor against the principal debtor and its surety may proceed despite a stay order issued by the rehabilitation court. The issuance of a stay order does not affect the right to commence actions or proceedings insofar as it is necessary to preserve a claim against the debtor.

Presidential Decree No. (P.D.) 902-A⁴⁷ as amended, previously governed the rehabilitation of distressed corporations. Subparagraph (c) of Section 6 of P.D. 902-A, as amended by P.D. 1799, reads as follows:

c) To appoint one or more receivers of the property, real and personal, which is the subject of the action pending before the Commission in accordance with the pertinent provisions of the Rules of Court in such other cases whenever necessary in order to preserve the rights of the parties-litigants and/or protect the interest of the investing public and creditors: *Provided, however,* That the Commission may, in appropriate cases, appoint a rehabilitation receiver of corporations, partnerships or other associations not supervised or regulated by other government agencies who shall have, in addition to the powers of a regular receiver under the provisions of the Rules of Court, such functions and powers as are provided for in the succeeding paragraph d) hereof: *Provided, further,* That the Commission may appoint a rehabilitation receiver of corporations, partnerships or other associations supervised or regulated by other government agencies, such as banks and insurance companies, upon request of the government agency concerned: *Provided, finally,* That **upon appointment of a management committee, rehabilitation receiver, board or body, pursuant to this Decree, all actions for claims against corporations, partnerships or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly.** (Emphasis supplied; italics in the original)

In cases such as *Rizal Commercial Banking Corp. v. IAC*⁴⁸ and *Castillo*

⁴⁷ Reorganization of the Securities and Exchange Commission with Additional Powers and Placing the Said Agency under the Administrative Supervision of the Office of the President, Presidential Decree No. 902-A, March 11, 1976

⁴⁸ 378 Phil. 10 (1999).

*v. Uniwide Warehouse Club, Inc. and/or Gow*⁴⁹ the Court ruled that upon the appointment of a management committee, rehabilitation receiver, board or body pursuant to P.D. 902-A, all actions for claims against a distressed corporation pending before any court, tribunal, board or body shall be suspended accordingly.⁵⁰

The continuation of proceedings pending before the Securities and Exchange Commission (SEC) mentioned in P.D. 902-A, as amended, is applicable only to pending suspension of payment and rehabilitation cases filed as of June 30, 2000 as provided in Section 5.2 of R.A. 8799 or the Securities Regulation Code:

5.2. The Commission's jurisdiction over all cases enumerated under Section 5 of Presidential Decree No. 902-A is hereby transferred to the Courts of general jurisdiction or the appropriate Regional Trial Court: *Provided*, That the Supreme Court in the exercise of its authority may designate the Regional Trial Court branches that shall exercise jurisdiction over these cases. The Commission shall retain jurisdiction over pending cases involving intra-corporate disputes submitted for final resolution which should be resolved within one (1) year from the enactment of this Code. **The Commission shall retain jurisdiction over pending suspension of payments/rehabilitation cases filed as of 30 June 2000 until finally disposed.** [Emphasis supplied]

On November 21, 2000, after the transfer of cases from the SEC to the RTC, the Court issued its Interim Rules of Procedure on Corporate Rehabilitation⁵¹ (2000 Rehabilitation Rules). Section 6, Rule 4 of the 2000 Rehabilitation Rules states:

Section 6. *Stay Order.* – If the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) days from the filing of the petition, issue an Order (a) appointing a Rehabilitation Receiver and fixing his bond; (b) **staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and sureties not solidarily liable with the debtor;** (c) prohibiting the debtor from selling, encumbering, transferring, or disposing in any manner any of its properties except in the ordinary course of business; (d) prohibiting the debtor from making any payment of its liabilities outstanding as at the date of filing of the petition; (e) prohibiting the debtor's suppliers of goods or services from withholding supply of goods and services in the ordinary course of business for as long as the debtor makes payments for the services and goods supplied after the issuance of the stay order; (f) directing the payment in full of all

⁴⁹ 634 Phil. 41 (2010).

⁵⁰ Supra note 48 at 27; id at 49.

⁵¹ A.M. No. 00-8-10-SC; promulgated on November 21, 2000.

administrative expenses incurred after the issuance of the stay order; (g) fixing the initial hearing on the petition not earlier than forty five (45) days but not later than sixty (60) days from the filing thereof; (h) directing the petitioner to publish the Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; (i) directing all creditors and all interested parties (including the Securities and Exchange Commission) to file and serve on the debtor a verified comment on or opposition to the petition, with supporting affidavits and documents, not later than ten (10) days before the date of the initial hearing and putting them on notice that their failure to do so will bar them from participating in the proceedings; and (j) directing the creditors and interested parties to secure from the court copies of the petition and its annexes within such time as to enable themselves to file their comment on or opposition to the petition and to prepare for the initial hearing of the petition. (Emphasis supplied)

The 2000 Rehabilitation Rules explicitly stated that the “enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and sureties not solidarily liable with the debtor”⁵² is suspended by the issuance of a stay order.

However, at the time the petition for rehabilitation of PWI and RETELCO was initiated and the Stay Order dated August 24, 2009 was issued, the rules governing corporate rehabilitation was already the 2008 Rehabilitation Rules.⁵³ Section 6, Rule 4 of the 2000 Rehabilitation Rules had been superseded by Section 7, Rule 3 of the 2008 Rehabilitation Rules which enumerates the consequences of the issuance of a stay order as follows:

Section 7. *Stay Order.* – If the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) working days from the filing of the petition, issue an order: (a) appointing a rehabilitation receiver and fixing his bond; (b) **staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and persons not solidarily liable with the debtor; provided, that the stay order shall not cover claims against letters of credit and similar security arrangements issued by a third party to secure the payment of the debtor's obligations; provided, further, that the stay order shall not cover foreclosure by a creditor of property not belonging to a debtor under corporate rehabilitation; provided, however, that where the owner of such property sought to be foreclosed is also a guarantor or one who is not solidarily liable, said owner shall be entitled to the benefit of exclusion as such guarantor;** (c) prohibiting the debtor from selling, encumbering, transferring, or

⁵² Section 6, Rule 4 of A.M. No. 00-8-10-SC or the Interim Rules of Procedure on Corporate Rehabilitation.

⁵³ A.M. No. 00-8-10-SC, supra note 18.

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disposing in any manner any of its properties except in the ordinary course of business; (d) prohibiting the debtor from making any payment of its liabilities except as provided in items (e),(f) and (g) of this Section or when ordered by the court pursuant to Section 10 of Rule 3; (e) prohibiting the debtor's suppliers of goods or services from withholding supply of goods and services in the ordinary course of business for as long as the debtor makes payments for the services and goods supplied after the issuance of the stay order; (f) directing the payment in full of all administrative expenses incurred after the issuance of the stay order; (g) directing the payment of new loans or other forms of credit accommodations obtained for the rehabilitation of the debtor with prior court approval; (h) fixing the dates of the initial hearing on the petition not earlier than forty-five (45) days but not later than sixty (60) days from the filing thereof; (i) directing the petitioner to publish the Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; (j) directing the petitioner to furnish a copy of the petition and its annexes, as well as the stay order, to the creditors named in the petition and the appropriate regulatory agencies such as, but not limited to, the Securities and Exchange Commission, the Bangko Sentral ng Pilipinas, the Insurance Commission, the National Telecommunications Commission, the Housing and Land Use Regulatory Board and the Energy Regulatory Commission; (k) directing the petitioner that foreign creditors with no known addresses in the Philippines be individually given a copy of the stay order at their foreign addresses; (l) directing all creditors and all interested parties (including the regulatory agencies concerned) to file and serve on the debtor a verified comment on or opposition to the petition, with supporting affidavits and documents, not later than fifteen (15) days before the date of the first initial hearing and putting them on notice that their failure to do so will bar them from participating in the proceedings; and (m) directing the creditors and interested parties to secure from the court copies of the petition and its annexes within such time as to enable themselves to file their comment on or opposition to the petition and to prepare for the initial hearing of the petition.

The issuance of a stay order does not affect the right to commence actions or proceedings insofar as it is necessary to preserve a claim against the debtor.
(Emphasis and underscoring supplied; italics in the original)

Noticeably, the consequences of the issuance of a stay order enumerated in Section 6, Rule 4 of the 2000 Rehabilitation Rules were modified and expanded in Section 7, Rule 3 of the 2008 Rehabilitation Rules. It is worthy to point out that the Court included a paragraph clarifying that “a stay order does not affect the right to commence actions or proceedings insofar as it is necessary to preserve a claim against the debtor.”⁵⁴ Therefore, it is clear that the Court recognizes in the 2008 Rehabilitation Rules the right of

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Section 7, Rule 3 of the Rules of Procedure of Corporate Rehabilitation.



creditors to commence actions or proceedings necessary to safeguard its claim against distressed corporations like PWI and RETELCO despite a stay order.

Though the petition for rehabilitation of PWI and RETELCO was filed under the 2008 Rehabilitation Rules, the significant changes incorporated in R.A. 10142 or the Financial Rehabilitation and Insolvency Act (FRIA) of 2010⁵⁵ may be applied to resolve the present petition. To integrate the changes introduced in the FRIA, the Court enacted the Financial Rehabilitation Rules of Procedure⁵⁶ (2013 FRIA Rules) on August 27, 2013. Section 2, Rule 1 of the 2013 FRIA Rules provides that it shall govern rehabilitation cases already pending, except when its application would not be feasible or would work injustice, to wit:

Section 2. *Scope.* – These Rules shall apply to petitions for rehabilitation of corporations, partnerships, and sole proprietorships, filed pursuant to Republic Act No. 10142, otherwise known as the Financial Rehabilitation and Insolvency Act (FRIA) of 2010.

These Rules shall similarly govern all further proceedings in suspension of payments and rehabilitation cases already pending, except to the extent that, in the opinion of the court, its application would not be feasible or would work injustice, in which event the procedures originally applicable shall continue to govern. (Emphasis supplied; italics in the original)

Similarly, in Section 146 of the FRIA, it is stated that:

Section 146. *Application to Pending Insolvency, Suspension of Payments and Rehabilitation Cases.* – This Act shall govern all petitions filed after it has taken effect. All further proceedings in insolvency, suspension of payments and rehabilitation cases then pending, except to the extent that in the opinion of the court their application would not be feasible or would work injustice, in which event the procedures set forth in prior laws and regulations shall apply.

Therefore, the retroactive application of the pertinent provisions of the 2013 FRIA Rules is permitted in resolving the issue on the non-suspension of the appellate proceedings in the CA despite the issuance by the rehabilitation court of a stay order during the pendency of the appeal.

In *Allied Banking Corp. v. Equitable PCI Bank, Inc.*,⁵⁷ the Court found that the application of the 2013 FRIA Rules was proper in resolving a rehabilitation case instituted under the 2000 Rehabilitation Rules “insofar as

⁵⁵ Effective on August 31, 2010.

⁵⁶ A.M. No. 12-12-11-SC, August 27, 2013 (Resolution).

⁵⁷ 828 Phil. 64 (2018).

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it clarifies the effect of an order staying claims against a debtor sought to be rehabilitated”.⁵⁸

A creditors’ right to commence actions or proceedings under Section 7, Rule 3 of the 2008 Rehabilitation Rules was carried over in the last paragraph of Section 8, Rule 2 of the 2013 FRIA Rules which states:


Section 8. *Commencement of Proceedings and Issuance of a Commencement Order.* – The rehabilitation proceedings shall be deemed to have commenced from the date of filing of the petition.

The Commencement Order shall:

- (V) include a Stay or Suspension Order, which shall:
 - (i) suspend all actions or proceedings in court or otherwise, for the enforcement of all claims against the debtor;
 - (ii) suspend all actions to enforce any judgment, attachment or other provisional remedies against the debtor;
 - (iii) prohibit the debtor from selling, encumbering, transferring or disposing in any manner any of its properties except in the ordinary course of business; and
 - (iv) prohibit the debtor from making any payment of its liabilities outstanding as of the commencement date except as may be provided herein.

The issuance of a stay order does not affect the right to commence actions or proceedings in order to preserve *ad cautelam* a claim against the debtor and to toll the running of the prescriptive period to file the claim. For this purpose, the plaintiff may file the appropriate court action or proceeding by paying the amount of One Hundred Thousand Pesos (P100,000.00) or one-tenth (1/10) of the prescribed filing fee, whichever is lower. The payment of the balance of the filing fee shall be a jurisdictional requirement for the reinstatement or revival of the case. (Emphasis supplied; italics in the original)

The Stay Order issued by the rehabilitation court, which effectively started the rehabilitation proceedings, together with its order suspending all claims against PWI and RETELCO, is akin to a commencement order under Section 8, Rule 2 of the 2013 FRIA Rules. The quoted provision clearly recognizes the right of creditors to commence actions or proceedings in order to preserve *ad cautelam* their respective claims against a distressed corporation despite the issuance of a stay order. This provision reinforces Section 7, Rule 3 of the 2008 Rehabilitation Rules and acknowledges creditors’ right to commence actions or proceedings against a corporation undergoing rehabilitation.



⁵⁸

Id. at 78.

In their petition, PWI and RETELCO argued that the Court's ruling in *Phil. Airlines, Inc. v. Court of Appeals*⁵⁹ is applicable to the present case.⁶⁰ This case originated from a complaint for design infringement and damages instituted by Sabine Koschinger against the company. Before the trial court had rendered a decision, the SEC gave due course to Philippine Airlines' petition for the appointment of a rehabilitation receiver pursuant to P.D. 902-A. The Court upheld the suspension of monetary claims against Philippine Airlines because of the SEC's order placing it under receivership. The Court recognized the need to suspend the payment of the claims pending the rehabilitation proceedings in order to enable the management committee/receiver to channel the efforts towards restructuring and rehabilitation.⁶¹ The Court explained that "[t]he continuation of the appeal proceedings would have unduly hindered the management committee's task of rehabilitating the ailing corporation, giving rise precisely to the situation that the stay order sought to avoid."⁶²

The ruling in *Phil. Airlines, Inc. v. Court of Appeals* cannot be applied to the present case to justify suspending the appellate proceedings of Capitol's collection case against PWI and RETELCO as they do not involve the same factual milieu. It must be emphasized that Philippine Airlines' petition for the appointment of a rehabilitation receiver was filed pursuant to P.D. 902-A, as amended, and it was resolved by applying the provisions under the 2000 Rehabilitation Rules,⁶³ the provisions of which did not yet include the amendment introduced in the last paragraph of Section 7, Rule 3 of the 2008 Rehabilitation Rules. Unlike the *Phil. Airlines, Inc. v. Court of Appeals* case, the petition for corporate rehabilitation of PWI and RETELCO was initiated pursuant to the 2008 Rehabilitation Rules. More importantly, it is now clear in Section 7, Rule 3 of the 2008 Rehabilitation Rules and Section 8, Rule 2 of the 2013 FRIA Rules that creditors have a right to commence actions to preserve their claims against a distressed corporation under rehabilitation.

Likewise, in *Philippine Airlines, Incorporated v. Zamora*,⁶⁴ the Court declared that:

x x x [N]o other action may be taken in, including the rendition of judgment during the state of suspension – what are automatically stayed or suspended are the proceedings of an action or suit and not just the payment of claims during the execution stage after the case had become final and executory.

The suspension of action for claims against a corporation under rehabilitation receiver or management committee embraces all phases of the suit, be it before the trial court or any tribunal or before this Court. Furthermore,

⁵⁹ 596 Phil. 500 (2009).

⁶⁰ Petition for Review; *rollo*, p. 14.

⁶¹ *Supra* note 59.

⁶² *Id.* at 508.

⁶³ *Id.* at 508-509.

⁶⁴ 543 Phil. 546 (2007).



the actions that are suspended cover all claims against a distressed corporation whether for damages founded on a breach of contract of carriage, labor cases, collection suits or any other claims of a pecuniary nature.⁶⁵

However, the principle expressed above cannot be indiscriminately applied in resolving all controversies involving suspension of claims of distressed corporations presented before Us. The application of the quoted declaration of the Court must be done cautiously, taking into consideration the context in which it was decided. Similar to *Philippine Airlines v. Court of Appeals*, the ruling of the Court in *Philippine Airlines, Incorporated v. Zamora*, quoted above cannot be applied to the present case because the labor case from which the case originated was still pending in the National Labor Relations Commission (NLRC) when Philippine Airlines filed a petition for the appointment of a rehabilitation receiver. Moreover, Philippine Airlines' petition for the appointment of a rehabilitation receiver was filed pursuant to P.D. No. 902-A, as amended, and the Court relied only on its provisions and prior decided cases in resolving the dispute.⁶⁶ Considering the apparent differences between *Philippine Airlines, Incorporated v. Zamora* and the present case, adopting principles from said case, insofar as implications of stay order is concerned, to resolve the case at bar, is misplaced.

More recently, in *La Savoie Development Corp. v. Buenavista Properties, Inc.*,⁶⁷ the Court applied the ruling in *Phil. Airlines, Inc. v. Court of Appeals*, in declaring that the "effect of the Stay Order is to *ipso jure* suspend the proceedings in the x x x RTC at whatever stage the action may be."⁶⁸ This case originated from a complaint for termination of contract and recovery of property with damages Buenavista Properties, Inc. (Buenavista) filed against La Savoie Development Corp. (La Savoie) in 1998. On June 12, 2013, the RTC of Quezon City issued a decision in favor of Buenavista. Subsequently, La Savoie filed a manifestation dated June 21, 2003 informing the court that a stay order dated June 4, 2003 was issued by the RTC of Makati and asking the RTC of Quezon City to suspend its proceedings. In ruling that the decision of the RTC of Quezon City did not attain finality due to the issuance of a stay order pursuant to the 2000 Rehabilitation Rules, the Court applied the amendatory provisions of P.D. No. 902-A which mandated the suspension of all actions for claims against a corporation placed under a management committee by the SEC.⁶⁹ Noticeably, what may be applied is the favorable treatment under the transitory clause under Section 146 of the FRIA wherein suppletory application of FRIA Rules to pending rehabilitation cases is permitted "except to the extent that in the opinion of the court their application would not be feasible or would work injustice."⁷⁰

⁶⁵ Id. at 567.

⁶⁶ Supra note 59.

⁶⁷ G.R. Nos. 200934-35, June 19, 2019.

⁶⁸ Id.

⁶⁹ Id.

⁷⁰ Section 146 of Republic Act No. 10142 or the Financial Rehabilitation and Insolvency Act (FRIA) of 2010.

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Accordingly, the collection case instituted by the creditor against the principal debtor and its surety may proceed despite a stay order issued by the rehabilitation court. The CA was correct in resuming the appellate proceedings of the collection case Capitol filed against PWI and RETELCO despite the stay order issued by the rehabilitation court in relation to PWI and RETELCO's rehabilitation. Regardless of the date the petition for rehabilitation was initiated, the issuance of a stay order no longer bars the court from making a determination of rights and liabilities in a collection case involving distressed corporations.

Undoubtedly, the objective in undergoing rehabilitation "is to enable the company to gain a new lease on life and thereby allow creditors to be paid their claims from its earnings."⁷¹ Nevertheless, allowing the continuation of the collection case against distressed corporations under rehabilitation is not inconsistent with the inherent objective of rehabilitation proceedings. What Section 7, Rule 3 of the 2008 Rehabilitation Rules and Section 8, Rule 2 of the 2013 FRIA Rules disallow is the enforcement of claims against the distressed corporation through the execution of money judgment which will undermine efforts to preserve its assets and restore its economic viability.

It is apparent that the Court, in formulating the 2008 Rehabilitation Rules and the 2013 FRIA Rules, did not intend to bar creditors from filing actions and instituting proceedings necessary to preserve their claim against distressed corporations and to toll the running of the prescriptive period. In construing Section 7, Rule 3 of the 2008 Rehabilitation Rules and Section 8, Rule 2 of the 2013 FRIA Rules, these provisions must be harmonized and taken as a whole, giving effect to each word. The Court is clear in enacting the 2008 Rehabilitation Rules and the 2013 FRIA Rules. Insofar as creditors' claims are concerned, what was sought to be suspended in a stay order issued pursuant to Section 7, Rule 3 of the 2008 Rehabilitation Rules or a commencement order issued under Section 8, Rule 2 of the FRIA Rules is the execution and satisfaction of judgments against corporations under rehabilitation. Therefore, while a stay order is immediately executory⁷² the CA was correct in continuing the proceedings in the appellate level because it is allowed under the FRIA Rules.

WHEREFORE, premises considered, the Petition for Review on *Certiorari* is **DENIED**.

SO ORDERED.


ROSMARI D. CARANDANG
Associate Justice

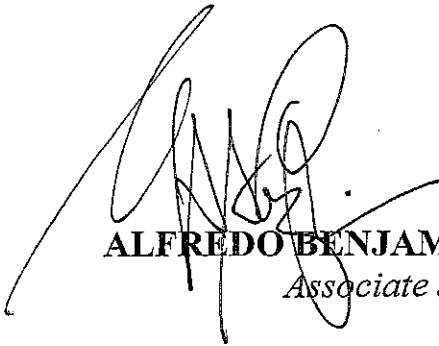
⁷¹ Supra note 57 at 77, citing *Philippine Bank of Communications v. Basic Polyprinters and Packaging Corporation*, 745 Phil. 651, 660-661 (2014).

⁷² Section 5, Rule 3 of A.M. No. 00-8-10-SC.

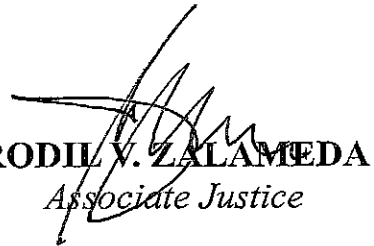
WE CONCUR:



DIOSDADO M. PERALTA
Chief Justice



ALFREDO BENJAMIN S. CAGUIOA
Associate Justice



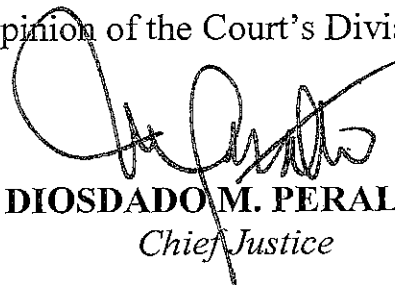
RODIL V. ZALAMEDA
Associate Justice



SAMUEL H. GAERLAN
Associate Justice

CERTIFICATION

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



DIOSDADO M. PERALTA
Chief Justice