Title: Express Investments III Private Ltd. and Export Development Canada v. Bayan Telecommunications, Inc., et al. (G.R. Nos. 174457-59, 175418-20, 177270)

Facts:
Bayan Telecommunications, Inc. (Bayantel) is a telecommunications company in the Philippines. It financed its operations and expansions through various credit agreements with several creditors, including Express Investments III Private Ltd. and Export Development Canada (the secured creditors in G.R. Nos. 174457-59), and later on, through the issuance of 13.5% Senior Notes handled by The Bank of New York (the Trustee for the note holders). Bayantel defaulted on its obligations due to financial difficulties, prompting it to propose a debt restructuring plan.

Subsequently, Bayantel's creditor, The Bank of New York, filed a petition for corporate rehabilitation on behalf of an Informal Steering Committee representing some creditors. The Pasig Regional Trial Court (RTC) issued a Stay Order, suspended, all claims against Bayantel, and appointed Atty. Remigio A. Noval as the Rehabilitation Receiver. Disagreements arose over the treatment of secured versus unsecured creditors, with secured creditors asserting priority claims over cash flow and collateral under the Omnibus Agreement and Assignment Agreement.

Bayantel proceeded with its rehabilitation efforts despite secured creditors' objections, leading to several court cases and appeals questioning, among other things, the pari passu principle (the equal treatment of secured and unsecured creditors), the determination of Bayantel's sustainable debt, the role of the Monitoring Committee, and the costs of the rehabilitation process.

Issues:
1. Whether secured and unsecured creditors should be treated pari passu during rehabilitation.
2. Whether the pari passu treatment impairs the Assignment Agreement between Bayantel and the secured creditors.
3. Whether impairment of the secured creditors' position can be justified under police power.
4. Whether the sustainable debt level set by the courts was proper.
5. Whether a debtor can submit a rehabilitation plan in creditor-initiated rehabilitation.
6. Whether the conversion of debt to equity in favor of creditors violates constitutional limits on foreign ownership of public utilities.

7. Whether the write-off of penalties and default interest violate the pari passu principle.
8. Whether creditors are entitled to costs of the rehabilitation proceedings.
9. Whether the Monitoring Committee can exercise control over Bayantel's operations.

Court's Decision:

1. The petition in G.R. Nos. 174457-59 is denied. The Supreme Court affirmed the decision of the Court of Appeals, upholding the pari passu treatment of creditors during rehabilitation.
2. The petition in G.R. Nos. 175418-20 is denied. The Supreme Court also affirmed the Court of Appeals' decisions on identifying sustainable debt and the limits on debt-to-equity conversion.
3. The petition in G.R. No. 177270 is denied. The Supreme Court affirmed that the Monitoring Committee's power is limited to oversight and monitoring of Bayantel's operations, and it does not extend to management control.

Doctrine:

The principle of pari passu (equal treatment) during rehabilitation dictates that during the reorganization of a distressed company, its assets are held in trust for the equal benefit of all creditors to prevent one from obtaining an advantage over another.

Class Notes:

Rehabilitation proceedings aim to conserve and manage the assets of an insolvent entity in hopes of returning it to solvency. The Stay Order suspends all claims against the debtor and prohibits the disposal or payment of the debtor's properties and liabilities except as authorized in the rehabilitation plan. The court may liberally construe procedures to carry out the objectives of corporate rehabilitation. The pari passu principle ensures all creditors are treated equally, without preference, during rehabilitation. Secured creditors retain their preference, but the enforcement of such preference is equally stayed. They may receive adequate protection during the proceedings, and their recovery is subject to the approved rehabilitation plan. A management committee or receiver may be appointed to take over the management of a distressed corporation in the event of imminent danger to its assets or business operations.

Historical Background:

The Philippine Supreme Court has consistently upheld the principle of pari passu in rehabilitation cases, emphasizing the essence of equity among creditors to give the distressed company an opportunity to recover and eventually satisfy the claims of creditors from its operations. This approach is in line with preserving the debtor’s assets for the benefit of all stakeholders involved during the rehabilitation process. The development of jurisprudence in corporate rehabilitation in the Philippines reflects the balancing act between the rights of creditors and the survival of the debtor as an ongoing concern, which ultimately affects the economic landscape and the business community’s confidence in the country’s legal system for resolving corporate insolvency issues.