Title:
Fua Cun vs. Ricardo Summers, Sheriff Ex-Oficio of Manila, and China Banking Corporation

Facts:
On August 26, 1920, Chua Soco subscribed for 500 shares of stock in China Banking Corporation at a par value of P100 per share, paying P25,000, which is half of the subscription price, and received a receipt detailing the terms of his future obligations and rights. On May 18, 1921, Chua Soco executed a promissory note in favor of Fua Cun for P25,000, securing the note with a chattel mortgage on the shares of stock and delivering the endorsed receipt to Fua Cun. Fua Cun informed the bank's manager of the transaction, but was advised to await the Board's action.

Subsequently, Chua Soco became indebted to China Banking Corporation and his interest in the 500 shares was subject to attachment by Sheriff Summers, including the seizure of the receipt, despite the bank's knowledge of the receipt's endorsement to Fua Cun. Fua Cun filed an action claiming priority over his lien on 250 fully paid shares based on his chattel mortgage, seeking the return of the receipt and damages for wrongful attachment.

Procedurally, the trial court found in favor of Fua Cun, declaring his lien superior to the bank's claim. The defendants appealed the decision to the Supreme Court of the Philippines.

Issues:
1. Whether, by paying half of the subscription price for 500 shares, Chua Soco became the effective owner of 250 fully paid shares.
2. Whether a chattel mortgage can be executed on an equity interest in shares of stock.
3. Whether the bank had a lien on the shares for Chua Soco's indebtedness, and if so, whether such lien would have priority over Fua Cun's chattel mortgage.

Court's Decision:
The Supreme Court held that Chua Soco did not become the owner of 250 fully paid shares merely by paying half of the subscription price for 500 shares. However, the Court also held that a chattel mortgage can validly secure an equity interest in shares of stock as between parties and to those with notice. The court determined that the bank had no lien upon the shares of stockholders for any indebtedness and, consequently, the attachment levied by the bank was subject to Fua Cun's rights because it occurred after the bank's notice of the transaction. Therefore, the judgment was modified to reflect Fua Cun's rights in the equity of 500 shares, and upon payment of the remaining subscription price, he is entitled to the

issuance of certificates for the 500 shares.

Doctrine:
– A corporation generally has no lien upon the shares of stockholders for any indebtedness to the corporation unless explicitly provided for by statute.
– The endorsement and delivery of a receipt for shares of stock can operate as a valid assignment of an equity interest in the shares, and when accompanied by a chattel mortgage, it can serve as a conditional equitable assignment, effective against third parties who have notice.

Class Notes:
– Subscribed shares: Legally-binding agreement to purchase a specific number of shares at a certain price.
– Chattel mortgage: Security interest on tangible movable property.
– Attachment: Legal seizure of property to enforce a court judgment.
– Equity in shares: The interest that a subscriber has in the shares before the issuance of formal stock certificates.
– Statute cited: Corporation Act, section 120, relative to the restrictions on banks on acquiring and selling their own stock.

Key Concepts:
– For a chattel mortgage on shares to prevail against third parties, constructive notice is typically required.
– An equity interest in shares of stock can be assigned or mortgaged, and the assignment is valid upon notice to interested parties.
– In banking law, loans or discounts against a bank's own shares are generally prohibited to prevent conflicts of interest and ensure market stability.

Historical Background:
During the early 20th century, the corporate and banking laws of the Philippines, then under American rule, were influenced by American legal principles. The case exemplifies the era's legal environment, where banking regulations aimed to moderate risks and protect shareholders' and creditors' rights amidst economic growth and the evolving corporate landscape of the Philippines.