

Title:

****Gregorio H. Reyes and Consuelo Puyat-Reyes vs. Far East Bank and Trust Company****

Facts:

The case arose from an incident involving the dishonoring of a foreign exchange demand draft issued by Far East Bank and Trust Company (respondent) to Philippine Racing Club, Inc. (PRCI). Gregorio H. Reyes, as a representative of PRCI, intended to use the draft to pay registration fees for a conference in Sydney, Australia. The bank's assistant cashier offered a roundabout way to complete the transaction due to the lack of an Australian dollar account in Sydney, which involved drawing a draft against Westpac Bank in Sydney and having it reimbursed from the bank's U.S. dollar account in New York. This suggestion was agreed upon.

A foreign exchange demand draft was subsequently issued but was dishonored upon presentation in Sydney, citing "No account held with Westpac." This dishonor led to embarrassment and humiliation for the petitioners at the conference, prompting them to file a complaint for damages against the respondent bank in the Regional Trial Court of Makati, which was dismissed. The Court of Appeals affirmed the dismissal, leading to this petition for review to the Supreme Court.

Issues:

1. Whether the respondent bank was negligent by not adhering to a higher degree of diligence expected of banks.
2. Whether the dishonor of the demand draft constituted a breach of the bank's warranty as the drawer.
3. Whether the dishonor was due to the respondent bank's negligence instead of the drawee bank.

Court's Decision:

The Supreme Court affirmed the decision of the Court of Appeals, holding that:

1. The fiduciary nature of bank-client relationships demands a high degree of diligence, primarily in handling depositor's accounts. However, this level of diligence does not extend to commercial transactions not involving such fiduciary relationships. In this case, the relationship was a commercial transaction between the bank as the seller of the draft and PRCI as the buyer, thus not warranting a higher degree of diligence.
2. The dishonor of the demand draft was not attributable to any fault of the respondent bank but was due to the miscommunication and erroneous decoding on the part of Westpac-

Sydney. The bank had conducted its duties as expected under the circumstances and had not misrepresented its capabilities in effecting the transaction.

3. Given the bank's efforts to ensure the draft's honor through timely communications and the unique circumstances leading to the draft's dishonor, the bank was not deemed negligent. The Supreme Court ruled that the bank had acted within the bounds of what is required by the diligence of a good father of a family.

Doctrine:

This case reiterates the principle that while banks are held to a high degree of diligence in fiduciary relationships with their depositors, the same standard does not blanketly apply to all bank transactions, particularly those not involving such fiduciary capacities.

Class Notes:

- The fiduciary nature of the bank-client relationship requires a higher degree of diligence in handling depositor's accounts but does not necessarily apply to all bank transactions.
- The diligence required of banks can vary based on the nature of their relationship with the client; a fiduciary relationship demands a higher standard, whereas a commercial transaction follows the diligence of a good father of a family.
- Miscommunication between banks, not attributable to negligence on the part of one, does not automatically lead to liability for damages resulting from the miscommunication.

Historical Background:

This case exemplifies the evolving nature of bank liabilities and the expectations of diligence in varying relationships with clients. It distinguishes between the bank's different roles and responsibilities under Philippine law, highlighting the nuanced understanding of bank-client relationships and the standards of care applicable depending on the specific context of the bank's service or transaction.