

**\*\*Title\*\*:** Asia Brewery, Inc. and Charlie S. Go vs. Equitable PCI Bank (Now Banco de Oro-EPCI, Inc.)

**\*\*Facts\*\*:**

Asia Brewery, Inc. (ABI) and Charlie S. Go filed a Complaint against Equitable PCI Bank (respondent) in the RTC of Makati City, seeking payment, reimbursement, or restitution for a series of financial instruments fraudulently endorsed and encashed. From September 1996 to July 1998, 10 checks and 16 demand drafts, collectively valued at P3,785,257.38 and meant for Go, were intercepted by Raymond U. Keh, ABI's Sales Accounting Manager. Using falsified accounts at the respondent bank, Keh redirected the proceeds to himself. Despite Keh being charged with theft, no recoveries were made from him.

ABI's complaint was predicated on the claim that the bank, having guaranteed all prior endorsements, was liable for the moneys had and received on the fraudulently endorsed checks, akin to the principle established in *Associated Bank v. CA*. The respondent, in its defense, argued lack of cause of action, stating that the instruments were not properly delivered to Go, and hence, no claim could be placed against the bank. Citing *Development Bank of Rizal v. Sima Wei*, the respondent bank argued that, without proper delivery to the payee, ABI and Go had no cause of action.

Each party filed subsequent pleadings without proceeding to trial. The RTC dismissed the Complaint for lack of cause of action and denied the motion for reconsideration, a decision from which ABI and Go appealed.

**\*\*Issues\*\*:**

1. Whether the RTC erred in dismissing the complaint for lack of cause of action prior to trial.
2. If the allegations in the complaint suffice to establish a cause of action against the respondent bank.
3. The applicability of the delivery principle under the Negotiable Instruments Law in the context of this case.

**\*\*Court's Decision\*\*:**

The Supreme Court overturned the RTC's decision, granting the petition and reinstating the complaint for further proceedings. It emphasized that a distinction exists between "failure to state a cause of action" and "lack of cause of action," the latter being inappropriately applied by the RTC as a basis for its dismissal. The Court underlined that questions

regarding the existence of a cause of action should be addressed post-evidence phase, not at the pleadings' review stage.

Furthermore, it clarified that for a cause of action to be valid, it must consist of the plaintiff's legal right, the defendant's correlative obligation, and an act or omission on the part of the defendant that violates said legal right. The SC found that ABI's complaint sufficiently outlined these elements, warranting a trial to substantiate the presented claims and defenses, particularly on the issue of delivery of the instruments.

**\*\*Doctrine\*\*:**

This case reiterates the doctrine that lack of cause of action should be determined after examining the evidence, not from the pleadings alone. Additionally, it emphasizes the principle under the Negotiable Instruments Law regarding the presumption of delivery—if a party's signature appears on an instrument no longer in their possession, a valid and intentional delivery by them is presumed until proven otherwise.

**\*\*Class Notes\*\*:**

- Distinction between “failure to state a cause of action” and “lack of cause of action.”
- Elements of a cause of action: (1) legal right of the plaintiff, (2) the correlative obligation of the defendant, (3) act or omission of the defendant violating the plaintiff's right.
- Presumption of delivery under Section 16 of the Negotiable Instruments Law: When an instrument is no longer in the possession of a party whose signature appears on it, valid and intentional delivery by that party is presumed.
- Grounds for the dismissal of a complaint under Rule 16 of the Rules of Court do not include lack of cause of action.
- Legal procedures and remedies involving fraudulently endorsed financial instruments.

**\*\*Historical Background\*\*:**

The distinction and application of procedural principles regarding causes of action and the interpretation of legal terms such as “delivery” in relation to negotiable instruments are critical in the Philippine legal system's effort to balance the interests of financial institutions and individuals or entities potentially wronged by fraudulent transactions. This case illustrates the Supreme Court's role in clarifying procedural misapplications at the trial court level, ensuring that claims with potential merit are thoroughly examined before a final decision is rendered.