

**\*\*Title:\*\*** Bank of the Philippine Islands vs. Central Bank of the Philippines (Now Bangko Sentral ng Pilipinas) and Citibank, N.A.

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

The legal tussle originated from a dispute between Bank of the Philippine Islands (BPI) and Central Bank of the Philippines (CBP), now Bangko Sentral ng Pilipinas (BSP), involving the irregular charging of BPI's demand deposit account by CBP due to a bank fraud scheme dubbed "pilferage scheme." This scheme involved collusion between certain CBP Clearing House personnel and outsiders to intercept and tamper with "out-of-town" checks, culminating in financial losses for BPI amounting to PHP 9 million discovered in January 1982. BPI's efforts to reclaim the lost funds led to litigation. The National Bureau of Investigation (NBI) was roped in to investigate, revealing a complex fraud with convictions handed out by the Sandiganbayan to some perpetrators.

BPI's pursuit for redress saw it initially recovering PHP 4.5 million from CBP, with the remaining contested amount leading to a formal complaint before the Regional Trial Court (RTC) on January 21, 1988. The RTC ruled in favor of BPI, but upon appeal, the Court of Appeals reversed this decision, absolving CBP of liability and ordering the cancellation of the PHP 4.5 million previously credited to BPI.

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

The Supreme Court delved into several pivotal issues, including:

1. The capacity of CBP to be sued regarding its governmental/proprietary functions.
2. The nature (governmental or proprietary) of CBP's operation of clearing house facilities.
3. The extent of CBP's diligence in overseeing the employees involved in the fraud.
4. The liability of Citibank as the sending bank for the damages incurred by BPI.

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

The Court asserted that CBP, operating within its governmental capacity, was not liable for the fraudulent actions of its employees, Valentino and Estacio, as they were not acting as special agents nor within their assigned tasks. It upheld the appellate court's findings, affirming the dismissal of BPI's claims and the retraction of the PHP 4.5 million previously credited to BPI. The Court delineated that while CBP's enabling statute granted it the authority to 'sue and be sued,' this did not automatically infer liability for actions committed by its employees outside the scope of their designated duties. Furthermore, Citibank was absolved of third-party liability, adhering to proper clearance and withdrawal protocols.

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

- The principle of State Immunity from suit applies unless expressly waived, and such waiver does not necessarily infer State liability for acts performed by its employees outside the scope of their official duties.
- The liability of the state or government institutions for acts of employees, under the Civil Code, necessitates that said employees act within their assigned tasks or as special agents, a criterion not met in the presented case.

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

- **\*\*State Immunity from Suit:\*\*** A sovereign state cannot be sued without its express or implied consent. This principle is anchored in the sovereignty of the state.
- **\*\*Governmental vs. Proprietary Functions:\*\*** Governmental functions are intrinsic duties carried out by the state for its sovereign needs, whereas proprietary functions are commercial activities that could be performed by private entities.
- **\*\*Liability for Actions of Employees:\*\*** Under Articles 2176 and 2180 of the Civil Code, employers (inclusive of the State in its proprietary capacity) may be liable for damages caused by their employees if these occur within the scope of their assigned tasks.

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

This case underscores the complex interplay between state institutions' operational functions and their liability for wrongful actions perpetrated by their employees. It illustrates a scenario where state immunity principles are juxtaposed against the backdrop of modern financial systems and the imperative for robust oversight mechanisms to prevent fraud.