

Title: Bank of the Philippine Islands vs. Intermediate Appellate Court and Rizaldy T. Zshornack

Facts:

- Initiation of Complaint:** On June 28, 1976, Rizaldy T. Zshornack filed a complaint against the Commercial Bank and Trust Company of the Philippines (COMTRUST) before the Court of First Instance (CFI) of Rizal-Calooan City. This complaint presented four causes of action relating to unauthorized withdrawals and safekeeping of funds.
- Corporate Merger:** In 1980, the Bank of the Philippine Islands (BPI) absorbed COMTRUST through a corporate merger and was accordingly substituted as a party in the case.
- CFI Decision:** The CFI ruled largely in favor of Zshornack, except for the third cause of action.
- Appeal to Intermediate Appellate Court:** COMTRUST appealed to the Intermediate Appellate Court, which modified the CFI's decision, absolving COMTRUST from liability on the fourth cause of action but retaining the decisions on the first and second causes.
- Notice and Checks:** The specific incidents involved allegations of unauthorized withdrawal and safekeeping:
 - First Cause of Action:** Unauthorized withdrawal of US\$1,000.00 from Zshornack's dollar savings account (Acct. No. 25-4109) to issue a dollar draft favoring Leovigilda D. Dizon. Zshornack found no authorization for this withdrawal.
 - Second Cause of Action:** On December 8, 1975, Zshornack entrusted US\$3,000.00 cash to COMTRUST for safekeeping. COMTRUST later argued these funds were converted to pesos and credited to Zshornack's account without proper authorization.
- Supreme Court Petition:** Unresolved by the Intermediate Appellate Court's decision, BPI petitioned the Supreme Court, seeking complete absolution from liabilities related to the first and second causes of action and the award of damages.

Issues:

- First Cause of Action:** Whether BPI is liable for the unauthorized withdrawal of US\$1,000.00.
- Second Cause of Action:** The nature of the contract for safekeeping of US\$3,000.00 and whether BPI can be held liable under this contract.

3. **Damages**: Whether the award of P8,000.00 as damages was justified and lawful.

Court's Decision:

1. **First Cause of Action**:

- The Supreme Court held that BPI is liable for the unauthorized withdrawal because the bank could not substantiate its claim that the equivalent peso value had been given to Ernesto Zshornack, Jr., or that the transaction was authorized by Rizaldy Zshornack.

- **Ruling**: The bank must restore US\$1,000.00 to Rizaldy Zshornack's dollar savings account with applicable interest.

2. **Second Cause of Action**:

- The Court examined the document indicating COMTRUST received US\$3,000.00 for safekeeping. COMTRUST did not specifically deny this document under oath.

- Despite this, the contract was deemed one of depositum under Article 1962 of the New Civil Code. However, a contract of depositum for foreign exchange without complying with Central Bank Circular No. 20 was deemed illegal.

- **Ruling**: BPI was absolved from liability since transactions not conforming with Central Bank regulations are void, creating no enforceable obligations.

3. **Damages**:

- The Court upheld the award of P8,000.00 for litigation expenses and attorney's fees, finding it reasonable.

- **Ruling**: The award of damages is sustained.

Doctrine:

- **Article 1962 (New Civil Code)**: Contracts of depositum involve the obligation to safely keep and return an item received.

- **Central Bank Circular No. 20 and No. 281**: Transactions involving foreign exchange must comply with Central Bank regulations, including selling foreign exchange to authorized agents within one business day.

Class Notes:

- **Contract of Depositum**: Defined under Article 1962, primarily focused on safekeeping and returning the deposited item.

- **Corporate Authority**: Corporations are bound by the apparent authority of their officers unless specifically denied under oath.

- **Compliance with Regulations**: Engaging in foreign exchange transactions requires

strict adherence to Central Bank rules, failing which contracts can be deemed void.

- **Damages and Litigation Expenses**: Clear entitlement to specific sums must be substantiated under proper legal doctrines and satisfaction of procedural rules.

Historical Background:

- **Corporate Mergers**: Corporate mergers and their legal implications on ongoing litigation.

- **Foreign Exchange Regulations**: During the 70s, Philippine banking and financial institutions were subjected to stringent regulations concerning foreign exchange to stabilize the economy and control the flow of foreign currency.

This case highlights the interplay between contractual obligations, regulatory compliance, and corporate governance within a historical context of stringent financial supervision.