

****Title: Philippine Commercial International Bank (PCIB) vs. Ford Philippines, Inc. and Citibank, N.A.****

****Facts:****

On October 19, 1977, Ford Philippines issued a Citibank check worth PHP 4.75 million, payable to the Commissioner of Internal Revenue (CIR) for percentage taxes. The check was deposited at PCIB's Ermita Branch and cleared through the Central Bank. Instead of being credited to CIR, the funds were embezzled by a syndicate led by Ford's employee, Godofredo Rivera, alongside rogue bank officials from PCIB and PBC. Overextended periods, similar fraudulent transactions occurred involving two more Citibank checks from Ford, intended for CIR for tax payments totaling PHP 12.16 million.

****Procedural Posture:****

Ford filed a complaint for reimbursement of the duplicate tax payments caused by the fraud. The trial court held Citibank and IBAA (now PCIB) jointly liable for the first check and Citibank solely liable for the subsequent checks. Both banks appealed to the Court of Appeals. The appellate court affirmed Citibank's liability for the large amount of PHP 12.16 million while exempting it concerning the earlier check, placing responsibility on PCIB. Unhappy with these outcomes, PCIB and Ford sought review by the Supreme Court, raising numerous issues related to liability and negligence.

****Issues:****

1. Whether Citibank, as the drawee bank, and PCIB/IIBAA, as the collecting bank, were liable for the fraudulently negotiated checks.
2. Whether Ford's cause of action had prescribed by the time the complaint was filed.
3. Whether Citibank was negligent in paying the proceeds of the checks to the unauthorized payees.
4. Whether PCIB was negligent and failed to exercise due diligence in handling the checks and supervising its employees.

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

Issue 1 - Liability of Banks:

- The Court ruled that PCIB was solely responsible for the amount of Citibank Check No. SN-04867 since it breached its duty as the collecting agent of the BIR by failing to ensure the proceeds went to the payee's account. The clearing stamp "all prior indorsements and/or lack of indorsement guaranteed" implied responsibility.

- Both Citibank and PCIB were found equally liable for the proceeds of the Citibank checks (SN-10597 and SN-16508) amounting to PHP 12.16 million. The Court applied the doctrine of comparative negligence, seeing both banks equally failed in their obligations and supervision that led to the fraud.

Issue 2 - Prescription:

- The Court held Ford's action had not prescribed. The cause of action accrued when the checks were returned a month after their issue, making the original complaint filed within the ten-year prescriptive period for written contracts under the Civil Code.

Issue 3 - Negligence of Citibank:

- The Court found Citibank negligent in failing to scrutinize the checks' endorsements properly. The absence of required initials in the clearing stamps on checks SN-10597 and SN-16508 indicated due failure of the checks before payment.

Issue 4 - Negligence of PCIB:

- PCIB was negligent for not verifying Rivera's authorization for replacing and negotiating the checks. As a BIR collection bank, PCIB had a duty to verify the legitimacy of instructions concerning such high-value transactions.

****Doctrine:****

- A bank that guarantees prior endorsements or their absence must bear liability for subsequent frauds through its negligence in making these guarantees.
- Comparative negligence applies when both banks are accountable for failure in their responsibilities, necessitating proportional share in liability.
- The fiduciary relationship and the trust vested in banks necessitate the highest degree of diligence in handling depositor's accounts and supervising bank officers.

****Class Notes:****

1. Negotiable Instruments Law, particularly Section 55 - Effect of defective title due to fraud.
2. Civil Code Article 1144 - 10-year prescriptive period for actions based on written contracts.
3. Doctrine of Comparative Negligence - Liability shared based on each party's degree of fault.
4. Fiduciary Responsibility of Banks - Banks must exercise highest diligence due to the fiduciary nature of their relationship with clients.

5. Section 5 of Central Bank Circular No. 580, Series of 1977 - Accountability for theft affecting items in transit rests with the sending bank.

****Historical Background:****

The case, set during the late 1970s to early 1980s, reflects the rising complexity and susceptibility of banking transactions to sophisticated fraud schemes, influenced by varying levels of internal control mechanisms and technology. The ruling emphasizes institutional accountability critical for maintaining public trust in the financial systems given the high magnitude of funds banks handle.