

PHILIPPINE BANK OF COMMUNICATIONS, PETITIONER, VS. HON. JUAN F. ECHIVERRI, IN HIS CAPACITY AS PRESIDING JUDGE OF BRANCH XIV OF THE COURT OF FIRST INSTANCE OF MANILA, ENRIQUE LOR...

G.R. No. L-41795. August 29, 1980

Ponente: TEEHANKEE, J.

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TEEHANKEE, J.:

The Court sets aside the decision of respondent court insofar as it modifies and alters the compromise agreement freely entered into between petitioner bank and private respondents by deleting the concessions made by respondents. The validity of the compromise agreement in toto is upheld, since its provisions are not prohibited by law nor condemned by judicial decision nor contrary to morals, good customs and public policy. By virtue of the fundamental precept that a compromise agreement is a contract between the parties and has upon them the effect and authority of res judicata, the courts cannot impose upon them a judgment different from their real agreement or against the very terms and conditions thereof.

On May 29, 1974, the Philippine Bank of Communications (PBCOM for short), a banking corporation duly organized and existing under the laws of the Philippines that has been engaged in normal commercial banking transactions since 1939, filed a complaint for the recovery, jointly and severally from therein defendants, of over P25 million allegedly embezzled from it over a period of 16 years by its said employees-defendants, Yu Chiao Chin, alias Nelson Yu, assistant manager, in-charge of the Auditing Department; Paulino How, manager of the Business Development Department; Faustino Carlos, Ildefonso Cariño, Conrado Galvez, Arsenio Lorenzo, Enrique Lorenzo, Ricardo Carlos, Victoriano Salvador and Felizardo Albaira, bookkeepers.[1]

PBCOM prayed for full restitution of the amount embezzled, and payment of attorney's fees and exemplary damages. Upon its application, the trial court issued writs of attachment and, through the City Sheriff of Manila, attached various real and personal properties of the defendants.

Separately, each of the defendants, except Victoriano Salvador who died in the meantime, filed responsive pleadings, either an answer or a motion to dismiss, the last of which was filed on August 15, 1974.

Months later, or on March 10, 1975, the parties executed a compromise agreement, the substantial provisions of which read:

"WHEREAS, in said civil action, plaintiff BANK has asserted a claim against the PARTIES OF THE SECOND PART in the total amount of P25,278,780.93, exclusive of interests, attorney's fees and costs of suit;

"WHEREAS, the parties hereto are most desirous and interested that the aforesaid litigations be terminated and by this Agreement it is their intention that all claims therein and all disputes and differences between the parties the re to be settled and compromised to their mutual satisfaction;

"WHEREAS, in consideration of the agreement on the part of the BANK to dismiss with prejudice the

above-mentioned civil action and to waive all its rights and causes of action against all the defendants therein, the PARTIES OF THE SECOND PART are willing to acknowledge and assume certain obligations, make certain concessions and undertake to perform certain acts for the benefit of the BANK under such terms and conditions as hereafter specified.

"NOW, THEREFORE, for and in consideration of the foregoing premises and the mutual covenants and agreements to be performed, one for the other, as hereinafter set forth, the parties hereto do hereby stipulate and agree as follows:

"1. Yu Chiao Chin, one of the PARTIES OF THE SECOND PART, hereby acknowledges that he is indebted and liable to the BANK in the total sum of P6,610,000.00.

"2. Paulino L. How, also one of the PARTIES OF THE SECOND PART, likewise hereby acknowledges that he is indebted and liable to the BANK in the total amount of P600,000.00.

"3. Yu Chiao Chin hereby binds himself to pay to the BANK, without need of further demand, the aforesaid sum of P6,610,000.00 under the following terms and conditions:

"x x x

"4. Paulino L. How hereby binds himself to pay to the BANK, without need of further demand, the aforesaid sum of P600,000.00 under the following terms and conditions:

"x x x

"5. Yu Chiao Chin and Paulino L. How agree to nominate and submit to the satisfaction of the Bank such persons of reputable name and character who shall, together with them and upon the execution of this Agreement, jointly and severally, execute and sign, such promissory notes, deeds, documents or instruments as may be necessary to insure and/or secure the payment of the remaining balance of their obligation to the BANK as hereinabove set forth and thus give effect to and fully implement the terms and conditions of this Agreement.

"6. The parties hereto agree that all such promissory notes, deeds, documents or instruments which shall be executed under and by virtue of the preceding paragraph shall form part of this Compromise Agreement and that whatever Judgment which may be rendered by the CFI of Manila on the basis of the Compromise Agreement shall be deemed to extend to and include any and all undertakings and commitments made by the signatories thereto as part of the judgment, it being expressly understood and agreed by the parties hereto, that the undertaking to be done and the promises to be made by the third persons referred to above constitute an essential consideration for the promises, covenants and undertaking by the BANK under and by virtue of this Agreement.

"7. THE PARTIES OF THE SECOND PART, namely, Yu Chiao Chin alias Nelson Yu, Enrique Lorenzo y Jiongco, Conrado Galvez y Cervantes, Faustino Carlos y Ramos, Arsenio Lorenzo y Villaluz, Ildefonso Cariño y Marasigan, Felizardo Albaira, Ricardo Carlos, Paulino L. How, hereby agree to voluntarily resign from the BANK and to execute the corresponding quitclaims waiving whatever rights they may have against the BANK arising from their employment and/or in connection with the case and criminal charge hereinabove mentioned. Said quitclaims shall include a waiver of all the benefits, interests, participation, contributions and any other rights that they may have under both the Staff Provident Fund and the Retirement Plan of the PARTY OF THE FIRST PART.

"8. In consideration of the foregoing undertaking assumed by the PARTIES OF THE SECOND PART, the BANK hereby discharges forever the defendants from any and all obligations and liabilities arising from the aforementioned civil case.

"9. The parties shall file the appropriate motions in Court praying for the rendition of a judgment in the

aforementioned civil case based on the terms and conditions of this Agreement.

"10. The PARTIES OF THE SECOND PART hereby represent and warrant that they have not participated, singly or collectively, in any transaction or dealings which may be prejudicial to the BANK other than those related to or included in the aforementioned civil case and criminal charge and which have already been disclosed or are already known to the BANK. It is expressly agreed that this 'Compromise Agreement' shall not in any manner bar or preclude the BANK from asserting its rights against the PARTIES OF THE SECOND PART in the event that the BANK subsequently discovers such other transactions or dealings in which any or all the PARTIES OF THE SECOND PART are directly or indirectly involved and which are prejudicial to the BANK's interest."[2]

The Agreement was signed by the PBCOM represented by its president, Edward S. Go, as PARTY OF THE FIRST PART and each of the defendants in his own behalf as PARTIES OF THE SECOND PART.

On March 17, 1975, the counsel for the PBCOM on one hand, and the counsels for each of the defendants on the other, jointly filed a "Motion for Judgment on the Basis of Attached Compromise Agreement."

On April 17, 1975, respondent judge issued an order re-setting the hearing on the motion for judgment on the basis of the compromise agreement and at the same time making the observation *motu proprio* that "there are certain objectionable features concerning the compromise agreement, as submitted, such as matters pertaining to a proposed compromise involving the criminal aspect of the case, which is contrary to law. Therefore, the parties who have already signed the said compromise agreement are hereby instructed to go over the same and see how it could be properly approved by the Court, taking into consideration the provisions of law as well as public morals and policy."

On April 26, 1975, the parties - the PBCOM, thru its president, and the defendants in their own behalf and each assisted by counsel[3] - submitted a manifestation and motion in order to have the phrase "and criminal charge hereinabove mentioned" (contained in paragraph 7 of the Compromise Agreement) and "and criminal charge" (contained in paragraph 10 of the Compromise Agreement), *supra*, deleted and praying that judgment be rendered on the basis of the Compromise Agreement as thus modified.

On May 12, 1975, the defendant Conrado Galvez thru his counsel filed a Manifestation pointing out two alleged objectionable features in the compromise agreement signed by him, which he claimed to be "contrary to law, public policy and decency," namely, the provision thereof to the effect that said agreement even after its approval by the court shall be without prejudice to charging anew the same defendants on the basis of other anomalies which might be discovered in the bank thereafter, contrary to his expectation that the dismissal of the present criminal and civil cases would terminate with finality any and all litigations between the parties; and the provision regarding quitclaim where said defendant would be considered as having voluntarily resigned, waiving his right to reinstatement in the service, his right to retirement with the corresponding gratuity or compensation and his right to receive the benefits under the Staff Provident Fund. But said defendant made no claim that he did not voluntarily sign the compromise or that his consent had been obtained through mistake, violence or fraud.[4] In fact, he based his objection on his claim that "it was the plaintiff, from the outset, who persuaded Galvez to turn state witness and promised him reciprocal benefits should he agree to become such, and to which Galvez agreed and had done his part, but plaintiff had reneged on its promise and commitment x x x." [5]

Countering the manifestation of Conrado Galvez, PBCOM thru counsel maintained the legality and validity of the quitclaim duly signed by said Galvez. As to the terms of the Agreement, viz. that it "shall not in any manner bar or preclude the Bank from asserting the rights against the PARTIES OF THE SECOND PART in the event that the Bank subsequently discovers such other transactions or dealings in which any or all the PARTIES OF THE SECOND PART are directly or indirectly involved and which are prejudicial to the Bank's interest," said counsel

explained that the agreement was intended by the bank to cover only such matters or transactions which were known or disclosed to it by the defendants and not those of which it had no knowledge at the time of execution thereof.

On July 3, 1975, respondent judge issued an order setting the case for hearing "at which all the parties will be afforded the opportunity to individually show whether or not there is sufficient basis for the quitclaims in question viewed from the standpoint of law, public policy and morals vis-a-vis employer-employee relations ... ", citing as grounds therefor the following:

"We note the laudable objectives of the parties herein in entering into the Compromise Agreement under consideration: i.e., to terminate the above-captioned case and by this agreement to settle and compromise to their mutual satisfaction, all claims therein, and all disputes and differences between the parties. (Par. 3, page 2, Compromise Agreement)

"We observe, however, that aside from the foregoing latent infirmities of the Compromise Agreement, there obviously was an imbalance of the treatment of the defendants, Faustino Carlos, Ildefonso Cariño, Conrado Galvez, Ricardo Carlos and Arsenio Lorenzo, in contrast to principal defendants Yu Chiao Chin alias Nelson Yu, who had reiterated his admission made in his sworn statement taken at Camp Crame, Quezon City that he was responsible and liable to the plaintiff-bank for the loss/defraudation of at least P5,610,000.00, or a portion only of the P14 million he admitted in his Sworn Statement at Camp Crame, Quezon City. In the same manner, defendant Paulino How, admitted responsibility for P600,000.00.

"x x x

"While Compromises are encouraged and normally courts approve compromise agreements as a matter of course, nonetheless, courts are not rubber stamps mechanically approving whatever litigants submit to them labelled as a 'compromise agreement'. They must examine if it is not contrary to law, public order, public policy, morals and good customs."

Respondent judge further advanced his own appraisal that the compromise agreement was "unfair" and "one-sided", and directed the parties once more to "reconsider ... and reform" the waiver and quitclaim provisions of paragraph 7 thereof, as follows:

"It will be noted that of the several defendants, Yu Chiao Chin and Paulino L. How both acknowledged their liability to plaintiff, the former in the sum of P5,610,000.00 and the latter in the sum of P600,000.00. (Paragraphs 1 to 6 of the compromise agreement) As to them, there would appear to be sufficient basis for the waiver.

"There is no such acknowledgment on the part of the other defendants. On the other hand, defendants Yu Chiao Chin and Paulino L. How admitted sole and exclusive liability for the misdeeds, and absolved the other defendants (all minor employees then under them) of any responsibility thereon. There is no reason on the basis of the record why the benefits owing to such other defendants-employees should be waived under paragraph 7 of the Compromise Agreement.

"The Court cannot close its eyes either to the fact that there is no concession at all appearing to move to the defendants. An examination of the record, including the numerous statements attached to the complaint, shows how unfair the one-sided compromise agreement is to the defendants specially to those who appear to have a very tenuous link to the irregularities in question.

"x x x

"Dropping the complaint is not enough, at least in this case, for all compromises are supposed to terminate litigation; it is only when the parties make reciprocal concessions that a litigation already commenced can be

put to an end by means of a compromise. Here there is no premise satisfactorily articulated to justify the compromise from the standpoint of the defendants-employees save possibly Yu Chiao Chin alias Nelson Yu and Paulino How.

"The Court shall endeavor to persuade the litigants in a civil case to agree upon some fair compromise.' Article 2029, Civil Code. (Emphasis added.) It is hard to see how the subject compromise can be considered fair. The Court has given the parties time to re-examine the agreement but is not persuaded that the agreement is indeed fair insofar as paragraph 7 thereof is concerned, said clause not having been affected in said reexamination. Unfortunately, only the objectionable feature on compounding a criminal offense was addressed by the parties in response to the court's directives of April 17, 1975 and May 8, 1975. The portion on waiver of the employees' benefits remains in its unsatisfactory and troubling condition.

"The parties must be directed once more to reconsider said paragraph 7 of the compromise agreement and reform or supplement it, for, as it is written, it is hard to see how the court can approve it. A compromise agreement 'will not be set aside where the rights of the parties may be protected by a reformation,' 15 C.J.S. 243."

Thereafter, PBCOM filed its written comments on July 24, 1975, reiterating its stand on the validity of the compromise agreement. Only two of the defendants, Ricardo Carlos and Conrado Galvez, filed their replies. Ricardo Carlos manifested that he signed the compromise "so as to show pakikisama to his co-defendants and to get the matter over and done with. He is by no means repudiating his signature...." and while admitting that he received certain small amounts from Mr. How and Mr. Yu, that he was leaving the matter to the discretion of the court, as summarized by respondent judge himself in his appealed decision.[6] The position of Conrado Galvez who had agreed to be a state witness has already been stated hereinabove.

On July 25, 1975, respondent court handed down its "partial decision" approving in toto (without modification and alteration) the compromise agreement as to defendant Paulino L. How and finding therein "nothing contrary to law, morals and public policy, as follows:

"In the light of all the foregoing, the Court finds nothing in the above-quoted provisions of the Compromise Agreement pertaining to defendant Paulino L. How, to be contrary to law, morals, and public policy, hence, same is hereby granted and approved.

"Judgment is hereby rendered approving the above-quoted Compromise Agreement between the plaintiff and defendant Paulino L. How and ordering the parties to comply strictly with the terms and conditions thereof without pronouncement as to costs.

"The attachment on the properties of defendant Paulino L. How is hereby lifted."[7]

On September 30, 1975, respondent judge rendered a 68-page decision as to all the other defendants, repeating the observations he made in his earlier order dated July 3, 1975, although along a more lengthy and ramified vein.[7-a]

Although the issues had not been completely joined, and without any trial or reception of evidence, respondent judge made in his decision extensive "findings" and conclusions of fact on the basis of the controverted allegations in the parties' pleadings. Nevertheless, respondent judge could not avoid stating in his decision that "(T)he findings of the independent auditors, SYCIP, GORRES, VELAYO & CO. indicated the defrauded loss was about P25 million. The admissions of the several defendants-bookkeepers approximated this finding; i.e. P21 million alone by Nelson Yu,"[8] after recounting the defraudation schemes of those whom he called the "principal defendants" who connived with herein respondents-defendants who as bookkeepers covered up in their respective books the amounts defrauded.

Invoking his earlier Order of July 3, 1975 wherein he had prejudged the compromise agreement to be "unfair" and "one-sided", despite which the parties had not heeded his directive therein "to reconsider and reform" the waiver and quitclaim provisions in paragraph 7 thereof, respondent judge ordered the deleting and striking out of said provisions insofar as herein respondents-defendants were concerned declaring them to be "contrary to law, morals, good customs, public policy and public order" and "considered inexistent and void from the beginning," yet approving the very same compromise agreement in toto without any deletion or modification as to the defendant Yu Chiao Chin alias Nelson Yu (in the same manner that he had approved in toto the same compromise agreement as to the defendant Paulino How in his earlier "partial decision" of July 25, 1975), as follows:

"After a careful study of the records, as well as the oral and written manifestations made by the parties, thru their respective counsel, the Court is of the opinion that paragraph 7 of the Compromise Agreement, insofar as it refers and includes the names of defendants-bookkeepers, Enrique Lorenzo y Jiongco, Conrado Galvez y Cervantes, Faustino Carlos y Ramos, Arsenio Lorenzo y Villaluz, Ildefonso Cariño y Marasigan, Felizardo Albaira, and Ricardo Carlos, transgresses the law, its cause, object and purpose is contrary to law, morals, good customs, public policy and public order -- and, therefore, is considered inexistent and void from the beginning.

"Except, therefore, with this modification, which even if included in said Compromise Agreement, but being considered inexistent and void from the beginning, the Compromise Agreement could be approved and made the basis of judgment of the above-entitled case, being, as thus modified, not contrary to law, morals, good customs, public policy and public order.

"WHEREFORE, judgment is hereby rendered approving the above-quoted Compromise Agreement, as modified thusly, to wit:

(a) delete the phrase 'and criminal charge herein abovementioned' found in paragraph 7, page 5 and the phrase 'and criminal charge' found in paragraph 10, page 6, and

(b) delete the names of all the defendants-bookkeepers appearing in paragraph 7, page 5 of the Compromise Agreement, namely, Enrique Lorenzo y Jiongco, Conrado Galvez y Cervantes, Faustino Carlos y Ramos, Arsenio Lorenzo y Villaluz, Ildefonso Cariño y Marasigan, Felizardo Albaira, and Ricardo Carlos,

as entered into between the plaintiff-bank and the defendants hereto, (with the exception of principal defendant Paulino L. How, whose case had been disposed of in a separate partial decision previously) and ordering the parties to comply strictly with the terms and conditions thereof without pronouncement as to costs.

"The attachments on the properties of all the defendants are hereby dissolved, discharged and lifted."[9]

Hence, the present petition which we find to be meritorious.

1. Contrary to the bare conclusion of respondent judge ordering the deletion of the names of herein respondents-defendants from the above-quoted Paragraph 7 of the compromise agreement, whereby he would free them from their agreement of voluntarily resigning from petitioner bank and waiving whatever rights they may have against petitioner arising from their employment or the case, including all benefits and rights under petitioner's Staff Provident Fund and retirement plan in consideration of petitioner's agreement to dismiss the P25-million case against them and discharging them from all obligations and liabilities thereunder, there is nothing in said resignation and waiver undertakings of respondents that "transgresses the law" or is "contrary to law, morals, good customs, public policy and public order - and, therefore is considered inexistent and void from the beginning" - and no such law or authority was cited by respondent judge or respondents to justify or support his erroneous assertion.

Respondent judge's "finding" that herein respondents-bookkeepers "all occupied an inferior position in the

negotiations on the Compromise Agreement in question, with respect to the plaintiff bank and/or together with principal defendants Yu Chiao Chin alias Nelson Yu and Paulino L. How. Be it remembered that these principal defendants as early as the year 1970, long before the Complaint herein was filed, had admitted in writing and 'assumed full responsibility for whatever consequences may arise and that we declare the bookkeepers free from all responsibility,'"[10] or even his pre-judged subjective perception in his earlier Order of July 3, 1975 hereinabove quoted that "there was obviously an imbalance in [their] treatment" in the "unfair" and "one-sided compromise agreement" do not at all warrant his rash deletion of the respondents' reciprocal undertaking in exchange of petitioner's dismissal of the case and waiver of its claims as "contrary to law, morals, good customs, public policy and public order." This is so, particularly considering that respondent judge approved the very same compromise agreement in toto without any deletion of the provisions in question as to defendants How and Yu, who were charged in the complaint below together with herein respondents-defendants as having connived and acted in concert with each other to defraud petitioner of some P25 million and respondent judge in his above-quoted "findings" found that "the admissions of the several defendants-bookkeepers [herein respondents] approximated this finding [of P25 million defrauded loss found by SyCip, Gorres, Velayo & Co., the independent auditors]; i.e. P21 million alone by Nelson Yu." All of them being similarly situated and having been charged with connivance and conspiracy in carrying out through the years the huge defraudation of petitioner, respondent judge could not arbitrarily declare the provisions in question void as to the herein seven respondents-conspirators and valid as to the two others above named.

2. Far from being "one-sided" and "unfair", it thus appears that in exchange of herein respondents' voluntary resignation (which employment they could not have clung to anyway considering the huge defraudation of over P25 million carried out with their connivance and covered by their admissions, as per respondent judge's own "findings" in his decision, supra,[11] which certainly would warrant their dismissal even on the mere ground of total loss of trust and confidence) and waiver of any dubious rights arising from their employment and the case below, including all benefits and rights under petitioner's Staff Provident Fund and retirement plan (which they would nevertheless have lost and forfeited upon separation from the service[12]) all of which involved petty amounts compared to the over P25 million sought to be recovered by petitioner, herein respondents got a pretty good deal. Petitioner in consideration thereof and probably realizing the futility of collecting any amount from them, agreed to dismiss the case against them and discharge them from all liability and required no assumption of monetary liability from them, contenting itself with the much lesser amounts of P600,000.00 and P6,610,000.00 undertaken to be paid it by the defendants Paulino How and Yu Chiao Chin alias Nelson Yu, respectively. This is the whole essence of a compromise as provided in Article 2028 of the Civil Code whereby the parties, by making reciprocal concessions, whether of greater benefit or not to one or the other party, avoid a litigation or put an end to one already commenced.[13]

3. The parties therefore have every freedom to enter into a compromise agreement, as in any other contract, the only exceptions being certain prohibited subjects of compromise such as the civil status of persons as provided in Article 2035 of the Civil Code (none of which is applicable here)[14] and the general restriction in Article 1306 of the Civil Code that "The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy."

The law and the precepts of morals or good customs need no definition. They need only to be cited and none has or can be cited as being transgressed by the cited provisions in question. As to the remaining fields of public order and public policy, the Court has since the early case of *Ferrazzini vs. Gsell*[15] pointed out that the two terms are practically equivalent, citing *Manresa* that "Public policy (orden publico) - which does not here signify the material keeping of public order - represents in the law of persons the public, social and legal interest, that which

is permanent and essential of the institutions, that which, even in favoring an individual in whom the right lies, cannot be left to his own will." The Code Commission however in drafting our present Code included the two terms, stating in its report that "Public order, which is found in the Spanish Civil Code, is not as broad as public policy, as the latter may refer not only to public safety but also, to considerations which are moved by the common good." [16]

In *Gabriel vs. Monte de Piedad* [17], the Court enjoined that "courts should not rashly extend the rule which holds that a contract is void as against public policy" and laid down the following criteria: "The term 'public policy' is vague and uncertain in meaning, floating and changeable in connotation. It may be said, however, that, in general, a contract which is neither prohibited by law nor condemned by judicial decision, nor contrary to public morals, contravenes no public policy. In the absence of express legislation or constitutional prohibition, a court, in order to declare a contract void as against public policy, must find that the contract as to the consideration or thing to be done, has a tendency to injure the public, is against the public good, or contravenes some established interests of society, or is inconsistent with sound policy and good morals, or tends clearly to undermine the security of individual rights, whether of personal liability or of private property. Examining the contract at bar, we are of the opinion that it does not in any way militate against the public good. Neither does it contravene the policy of the law nor the established interests of society."

Thus, the provisions in question which are neither prohibited by law nor condemned by judicial decision nor contrary to morals and good customs cannot be said to contravene any public policy or to militate against the public good.

4. The Civil Code in fact contains salutary provisions that encourage and favor compromises and does not even require judicial approval. As the Court held in *Cochingyan vs. Cloribel* [18], "Pursuant to Article 2037 of the Civil Code, 'A compromise has upon the parties the effect and authority of *res judicata* x x x' and this is true even if the compromise is not judicially approved." Article 2032 of the Civil Code provides only that "the court's approval is necessary in compromises entered into by guardians, parents, absentee's representatives, and administrators or executors of decedents' estates," and in no other case. Thus, parties-litigants who have arrived at a compromise have many times simply asked for and obtained the courts' dismissal of their suit without submitting their compromise agreement for judicial approval. Procedurally, it is preferable that such approval be obtained, since as was held in *Piano vs. Cayanong*, [19] "The agreement ha(s) upon the parties the effect and authority of *res judicata* (Art. 2037, New Civil Code; *Yboleon v. Sison*, 59 Phil. 281, 290; *Hernandez vs. Barcelon*, 23 Phil. 599, 607; *De Jesus v. Go Quiolay*, 65 Phil. 476, 482; *Meneses v. De la Rosa*, 77 Phil. 34, 38; *Salazar v. Jarabe*, 48 O. G. 2708, 2712; *Morales v. Fontanos*, 64 Phil. 19, 21), and the judgment rendered thereon ha(s) the authority of *res judicata* from the moment it (is) rendered x x x and such judgment is more than a mere contract binding the parties because having the sanction of the court, and entered as its determination of the controversy, it has all the force and effect of any other judgment, it being conclusive upon the parties and their privies (*Marquez vs. Marquez*, 73 Phil. 74)" and as provided by Article 2037, execution lies to exact compliance only with a judicial compromise. Article 2029 of the Civil Code provides further that "The court shall endeavor to persuade the litigants in a civil case to agree upon some fair compromise," and Articles 2039 and 2031 thereof provide for the suspension of pending actions and mitigation of damages to the losing party who has shown a sincere desire for a compromise, in line with the Code's policy of encouraging amicable settlements.

5. It is settled jurisprudence that neither the courts nor quasi-judicial bodies can impose upon the parties a judgment different from their compromise agreement (which as a valid contract is the law between the parties themselves) or against the very terms and conditions of their agreement.

We thus held in *Municipal Board of Cabanatuan City vs. Samahang Magsasaka, Inc.* [20] that "a judicial or

quasi-judicial body cannot impose upon the parties a judgment different from their real agreement or against the very terms and conditions of the amicable settlement entered into by them, without running the risk of contravening the universally established principle that a contract is the law between the parties."

We stressed therein that "(T)his Court, time and again, has ruled that a compromise agreement entered into by party-litigants, when not contrary to law, public order, public policy, morals, or good custom is a valid contract which is the law between the parties themselves. (Juan-Marcelo, et al. vs. Go Kim Pah, et al., 22 SCRA 309). It follows, therefore, that a compromise agreement, not tainted with infirmity, irregularity, fraud or illegality, is the law between the parties who are duty bound to abide by it and observe strictly its terms and conditions. It is incumbent upon the courts of justice to help develop and inculcate in the minds of the parties-litigants proper respect for, and obedience to, the terms and conditions of this kind of mutual agreement whenever it does not exhibit any feature or taint of illegality or fraud. Thus we would be enhancing the salutary provisions of Section 1, Rule 20, of the revised Rules of Court and Article 2029, New Civil Code, which entrust to the courts the function of enabling party-litigants in a civil suit to reach an amicable settlement of their disputes, "and cited our previous ruling in *Castro vs. Castro*[21] that

"x x x Es principio universalmente establecido que el convenio es ley entre las partes. No debe imponerse un criterio por mas acertado que fuese sobre el verdadero contrato de las partes. Que utilidad puede proporcionar la disposicion del articulo 2029 del nuevo codigo civil que encomienda al Juzgado la funcion de persuadir a los litigantes en un asunto civil a que procuren llegar a un arreglo si, despues de todo, el criterio del tribunal se ha de imponer sobre su convenio?"

The only case where the court may validly intervene is "if the parties and their counsel are unable to do it, ... to assist them in attaining precision and accuracy of language that would more or less make it certain that any dispute as to the matters being settled would not recur, much less give rise to a new controversy." [22]

6. As held in the case of *Gonzales vs. Gonzales*[23], the courts cannot deny their approval to a compromise agreement voluntarily entered into by the parties, where there is no valid serious objection, since "(T)he agreement, therefore, partaking of the nature of a contract, is subject to the same legal provisions providing for the validity, enforcement, rescission or annulment of ordinary contracts. In entering in said compromise, the parties were free to make any stipulation not contrary to law, public interest, or principles of morality, as much as in any other contract."

As stated above, supra,[24] only two of herein respondents, namely, Conrado Galvez and Ricardo Carlos, had presented manifestations as to the "objectionable features" of the compromise agreement signed by them, both following respondent judge's telegraphed but baseless observations in his Orders of April 17, 1975 and July 3, 1975 as to the waiver and quitclaim provisions being "contrary to law, morals and public policy," with Galvez complaining about petitioner having reneged on its alleged promise to give him reciprocal benefits in exchange of his agreement to turn state witness.

Aside from the totally untenable position in which respondent judge placed himself by declaring the provisions of paragraph 7 of the compromise agreement void as to herein respondents but valid in toto as to the defendants Paulino How and Yu Chiao Chin alias Nelson Yu, his decision would arbitrarily substitute his own terms for that agreed upon by the parties to the compromise agreement and baselessly free herein respondents from their undertaking thereunder. With their names ordered deleted from paragraph 7 of the compromise, they would be bound to no concession nor obligation (notwithstanding that pursuant thereto they had in fact executed the corresponding waiver and quitclaim therein provided), while petitioner had complied with its part and discharged them from all obligations and liabilities, despite their admission of complicity, pursuant to paragraph 8 of the same agreement (subject only to the express exception that petitioner was not waiving its rights as to any other

anomalies which might subsequently be discovered, notwithstanding respondents' warranty that they had not participated in any such prejudicial transactions other than those related to or included in the civil case and criminal charge.)

7. There can be no question that the parties voluntarily executed and entered into the compromise agreement. The record shows that all of the parties personally signed the agreement.[25] Respondents' voluntary consent to said agreement and its due execution with assistance of counsel was confirmed when a week thereafter, their respective counsels all signed the "Motion for Judgment on the Basis of the Attached Compromise Agreement." [26] The signatures of the parties, petitioner and respondents, and those of their respective counsels, were again affixed on the Manifestation and Motion dated April 26, 1975, reiterating their prayer for approval of the compromise agreement as modified pursuant to respondent judge's Order of April 17, 1978.[27] Thus, not one of herein respondents had ever assailed the compromise agreement as not having been freely or voluntarily entered into.

When respondent judge issued his Order for hearing of April 26, 1975 advancing his own observation as to "certain objectionable features" and mentioning that the compromise referred to compounding a felony, which is contrary to law and directing the parties to go over the same again so that he could approve the same "taking into consideration the provisions of law, as well as public morals and policy," supra,[28] the parties deferred thereto by filing their said Manifestation and Motion of April 26, 1975, wherein they prayed that "The phrase 'and criminal charge herein above mentioned' found in paragraph 7, page 5 and the phrase 'and criminal charge' found in paragraph 10, page 6 of the Compromise Agreement be deleted from the said Compromise Agreement dated March 10, 1975," and reiterated the prayer for judgment on the basis of the compromise agreement, as thus modified. They made of record, though, that respondent judge's view was in error, thus:

"5. The parties wish to state that the reference to a criminal charge in the said paragraphs is pure oversight on inadvertence inasmuch as there is no criminal charge mentioned in the paragraphs preceding paragraphs 7 and 10 of the Compromise Agreement and consequently the phrase 'criminal charge herein-above mentioned' is meaningless. Besides, it has not been the intention of the parties to compromise 'the criminal aspect of the case', not only because it would be contrary to law to do so but principally because the defendants are fully aware that such a compromise may be taken as an admission of guilt and the defendants entered into the 'Compromise Agreement' dated March 10, 1975 with the clear understanding that by so entering into such agreement, they are not admitting nor are they deemed to admit the commission of any criminal act."

Notwithstanding respondent judge's said Order and subsequent Order of July 3, 1975 setting the case anew for hearing and directing the parties once more "to reconsider ... and reform" the waiver and quitclaim provisions of paragraph 7 of the compromise agreement and flatly announcing that the modification deleting all reference to the criminal charge was "unsatisfactory" and that "dropping the complaint is not enough" concession for herein respondents, the stark fact remains that not one of respondents ever repudiated the compromise agreement nor moved to set aside or annul the same because of alleged fraud, violence or vitiated consent - which is the remedy available in such cases under Article 2038 of the Civil Code.[29]

All that respondents ever asserted, following respondent judge's line, was that the waiver and quitclaim provisions constituting their reciprocal concession was "contrary to law, morals, good customs, public policy and public order" - which we have held to be totally untenable.

ACCORDINGLY, the modification of and deletions from the compromise agreement ordered in respondent judge's decision are hereby set aside as null and void, and in lieu thereof judgment is hereby rendered approving the compromise agreement in toto. Without pronouncement as to costs.

SO ORDERED.

Makasiar, Fernandez, Guerrero, De Castro, and Melencio-Herrera, JJ., concur.

[1] The pertinent portions of the complaint read as follows:

"4. Over a period of 16 years from 1958 up to early 1974, defendants Yu Chiao Chin and Paulino How, taking advantage of their positions with PBCOM and acting in connivance with the rest of the defendants, who were bookkeepers, embezzled PBCOM of the amount of P25,278,780.93. The defraudation had been perpetrated by, among others, a) posting 'phony' or non-existing deposits on accounts opened with PBCOM under various names and later withdrawing the amounts represented by such phony deposits, thereby creating unauthorized and unapproved overdrafts which were, through the concerted action of the defendants, concealed from the management of PBCOM; and b) making withdrawals on uncollected deposits. Defendants' schemes are more particularly described by them in their sworn statements attached as annexes to this complaint.

"5. It was only on April 7, 1974 that this embezzlement was discovered by PBCOM when defendant Yu Chiao Chin confessed the fraud to the officials of the bank and at the same time made an offer to restore the amount embezzled provided that he and the other herein defendants would not be prosecuted by the bank.

"6. On various dates also, all the herein defendants gave sworn statements to the Philippine Constabulary. x x x.

"7. PBCOM's own investigation disclosed the loss of P25,278,780.93 and the evidence on hand established the accountability of the herein defendants for the said amount.

"8. PBCOM demanded from the herein defendants full restitution of the amount of P25,278,780.93 but defendants failed and continue to fail to comply with such demands of PBCOM, to the damage and prejudice of PBCOM.

"x x x" (Record, pp. 60-61; italics supplied).

[2] Record, pp. 171-175; italics supplied.

[3] Except Conrado Galvez who together with his counsel did not sign right then. Likewise, the counsel of record of Ricardo Carlos did not sign this Manifestation and Motion, although defendant Ricardo Carlos had signed the same. "Nonetheless, at the hearing on June 9, 1975, after counsel for Conrado Galvez and counsel for Ricardo Carlos had manifested to the court that they were leaving the matter regarding the disposition of the Compromise Agreement, the Motion for Judgment on the Basis of the Compromise Agreement, the Manifestation and Motion immediately referred to hereinabove, to the sound discretion of the court and if only to have the matter submitted squarely before the court, defendant Galvez, together with his counsel, Atty. Manansala, as well as counsel for Ricardo Carlos, Atty. Romulo Santos, in open court, affixed their respective signatures to the Manifestation and Motion." (Record, p. 312; Decision, p. 65.)

[4] As stated by respondent judge himself in the appealed decision, "in short, 'defendant Conrado Galvez' is in conformity with the Compromise Agreement, with the 'exception of paragraph 7 thereof, which we most respectfully ask for its disapproval and deletion for being repugnant to law, public policy and good moral and customs.'"

[5] Record, pages 296-297.

[6] Record, pages 294-295.

[7] Record, p. 237.

[7-a] The Court notes the undue length of the decision, due to respondent judge's reproducing therein verbatim the pleadings, motions and interlocutory orders filed and issued in the case as if his decision were a record on appeal.

[8] Record, page 302; emphasis supplied.

[9] Record, pages 314-315; emphasis copied.

[10] Record, pages 313-314.

[11] At page 10 hereof.

[12] Under Article XI, paragraph 8 of petitioner's collective bargaining agreement with its employees' association, of which respondents were members, it is provided that "8. In case of fraudulent conduct, or misbehaviour on the part of the employee causing the BANK to suffer losses, the whole balance or a fraction thereof of his or her individual Provident Fund Account will be confiscated to compensate for such losses." (Record, p. 466).

[13] In compromises or settlement of disputes, "(T)he relinquishment of (or promise to relinquish) a claim asserted in good faith constitutes good consideration not only because it may involve a detriment to the party who has asserted the claim but especially because it involves a benefit to the other party. It is detrimental to a party, to agree to accept less than he honestly believed was due him, as a means of terminating a dispute, and it is also beneficial to the other party to avoid or put an end to the litigation of a controversy and the possible annoyance, vexation, delay and uncertainty involved in such litigation." 15 Am. Jur. 2d. 952.

[14] The cited codal Article provides: "ART. 2035. No compromise upon the following questions shall be valid:

- (1) The civil status of persons;
- (2) The validity of a marriage or a legal separation;
- (3) Any ground for legal separation;
- (4) Future support;
- (5) The jurisdiction of courts;
- (6) Future legitime." (Civil Code).

[15] 34 Phil 697 (1916).

[16] Report of the Code Commission, p. 134.

[17] 71 Phil. 497 (1941).

[18] 76 SCRA 361, 388 (1977) per Castro, C.J., citing *Vda. de Gullas vs. David*, 23 SCRA 762, 766 (1968) which cites *Meneses vs. de la Rosa*, 77 Phil. 34 (1946). See also *Piano vs. Cayanong*, 7 SCRA 397, 400 (1963), citing numerous other cases.

[19] 7 SCRA at pages 400-401 (1963).

[20] 62 SCRA 435, 438-439 (1975), italics supplied.

[21] G.R. No. L-4400, June 30, 1952, 91 Phil. 922.

[22] *Hernandez vs. Colayco*, 64 SCRA 480 (1975).

[23] 81 Phil. 38 (1948).

[24] At pages 6 - 10, hereof.

[25] Record, p. 176.

[26] Record, p. 168.

[27] Record, pp. 188-193.

[28] At page 6 hereof.

[29] "ART. 2038. A compromise in which there is a mistake, fraud, violence, intimidation, undue influence, or falsity of documents, is subject to the provisions of article 1330 of this Code.

"However, one of the parties cannot set up a mistake of fact as against the other if the latter, by virtue of the compromise, has withdrawn from a litigation already commenced."

The cited Art. 1330 of the Civil Code provides that "A contract where consent is given through mistake, violence, intimidation, undue influence, or fraud is voidable."

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