

STANDARD CHARTERED BANK, PETITIONER, VS. DE GUIA-SALVADOR, R., CHAIRMAN PHILIPPINE INVESTMENT TWO (SPV-AMC), INC., PHILIPPINE INVESTMENT ONE (SPV-AMC), INC., AND MRM ASSET HOLDI...

Ponente: DE GUIA-SALVADOR, R., J.

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DE GUIA-SALVADOR, R., J.:

This is a consolidated decision on the Petition for Review filed by Standard Chartered Bank (“SCB”) and docketed as CA-G.R. SP. No. 131652, and the Petition for Indirect Contempt filed by Philippine Investment Two (SPV-AMC), Inc., (“PI Two”) and docketed as CA-G.R. SP. No. 132088.

Petition for Review (CA-G.R. SP. No. 131652)

The private respondents in CA-G.R. SP. No. 131652 (Petition for Review) are PI Two, Philippine Investment One (SPV-AMC), Inc., (“PI One”) and MRM Asset Holdings 2, Inc. (“MRMAH2”). The respondents in CA-G.R. SP. No. 132088 (Petition for Indirect Contempt) are SCB and Atty. Patricia Ann T. Prodigalidad.

The Petition for Review filed by SCB is effectively an appeal under Rule 43 of the Rules of Court from the Joint Resolution dated August 30, 2013[1] (“assailed resolution”) of the Regional Trial Court of Makati, Branch 149 (RTC), in SP. Proc. (Case) No. M-6683, the dispositive portion of which states:

“WHEREFORE, all said and considered, this court hereby grants the urgent motion filed by PI Two, as well as PI One's and MRMAH2's motions to release escrow account in the sum of Php34,511,095.05 in favor of PI Two. Moreover, Standard Chartered Bank's claim against PI Two in this rehabilitation proceedings is now deemed excluded; and Standard Chartered Bank is ordered to return the amounts it already received under the Rehabilitation Plan in the sum of Php233,629,672.88 to PI Two.

Finally, the approved Rehabilitation Plan dated December 14, 2009 is hereby amended to the effect that creditor Standard Chartered Bank is excluded from the list of creditors. Hence the distribution of available cash for payment by the debtor shall be allocated to the remaining creditors.

SO ORDERED.”[2]

The Facts

The case arose from a petition for rehabilitation of Philippine Investment Two (SPV-AMC), Inc. (PI Two), a corporation organized and existing under Philippine laws, filed by one of PI Two's creditors. The petition, entitled “In the matter of: Petition for Rehabilitation, with prayer for Staying All Claims, Actions, and Proceedings Against Philippine Investment Two (SPV-AMC), Inc., Metropolitan Bank and Trust Company, petitioner,” was docketed as SP. Proc. (Case) No. M-6683. Filed with the RTC, acting as rehabilitation court, the petition seeks the issuance of an order to stay all claims, actions and proceedings against PI Two.

Standard Chartered Bank (SCB), a banking institution incorporated under the laws of England and licensed to

conduct business in the Philippines, alleges that it had provided, with its branches and affiliates, a so-called “group financial package” to Lehman Brothers Holdings, Inc. (LBHI) and some of the latter's foreign affiliates.[3] PI Two is a Philippine affiliate of LBHI.[4]

Between 2003 and 2007, SCB, through its New York, USA, branch (SCB New York) and LBHI, as Principal Affiliate of foreign affiliate borrowers, entered into a so-called “Group Facilities Agreement,” a collection of executed, amended and restated agreements which oblige SCB New York to extend to LBHI and some of its foreign affiliates various loans to be obtained from SCB's branches and affiliates.[5]

The Group Facilities Agreement paved the way for PI Two, LBHI's Philippine affiliate, to avail of loans from SCB's branch in the Philippines (SCB Philippines) in the total principal amount of Php819,000,000.00.[6] Aside from PI Two, there are other LBHI affiliates in the Philippines that obtained loans from SCB Philippines.[7]

To secure the loans, LBHI made guarantees for the payment of all “loans, advances, and other credit facilities or financial accommodations, when due, whether at maturity, by declaration, demand or otherwise, including interest and charges, by each of the LBHI affiliate borrowers under the Group Facilities Agreement.”[8] These secured loans include the PI Two loan.[9]

On September 15, 2008, LBHI filed a bankruptcy petition under Chapter 11 of the United States Bankruptcy Code with the US Bankruptcy Court for the Southern District of New York, USA (USBC-SDNY) (“US Bankruptcy Court”).[10]

On September 16, 2008, the US Bankruptcy Court, USBC-SDNY, issued a Stay Order preventing LBHI's creditors from, “among other things, enforcing or perfecting their claims against, foreclosing on security provided by, and appropriating property of, LBHI” while the bankruptcy case is pending.[11]

On September 18, 2008, a petition for the corporate rehabilitation of PI Two was filed by one of its creditor, Metropolitan Bank and Trust Company (Metrobank), before the RTC.[12] The case is the subject of the appeal now before this Court.

On September 23, 2008, the RTC, acting as a rehabilitation court, issued the Stay Order in the rehabilitation case barring the enforcement of all claims against PI Two.[13]

On October 28, 2008, SCB filed its Comment to the petition for rehabilitation and alleged that in accordance with the Amended and Restated Group Facilities Agreement dated August 14, 2007, SCB's financial accommodations extended to PI Two were in the amount of Php819,000,000.00. SCB also stated that the PI Two loan was secured by a Guarantee from LBHI.[14]

On December 14, 2009, the RTC issued a Resolution approving the Rehabilitation Plan of PI Two, which incorporated a restructuring of PI Two's debt of Php819,000,000.00, based on SCB's claims.[15]

During the rehabilitation proceedings, however, a disagreement arose among the parties when PI Two alleged that SCB had concealed from the parties, the rehabilitation court and the rehabilitation receiver, the fact of its possession of collaterals under a Pledge Agreement, as well as the status of SCB's own filing of a Proof of Claim (at LBHI's bankruptcy proceedings) with the US Bankruptcy Court (USBC-SDNY).[16]

Apparently, SCB had filed a Proof of Claim, as creditor of LBHI, on September 22, 2009 at LBHI's bankruptcy proceedings.[17] The claim relates to LBHI's obligations under the Group Facilities Agreement, which LBHI had allegedly secured with a Guarantee.[18]

PI Two alleges that LBHI executed a Pledge Agreement on September 12, 2008 in favor of SCB that was “intended to secure the Group Facilities.”[19] However, SCB maintains that the Pledge Agreement was only to

“provide security for its guarantee” of the loans and other accommodations under the Group Facilities Agreement by its affiliates, including PI Two.[20] According to SCB, the pledged items are the following debt instruments:

a) Notes issued by HD Supply, Inc. (HD Supply Notes) with a face value of US\$81,455,477.00 represented by CUSIP identification number 40415RAD7; and

b) LBHI's interest in loans amounting to US\$87,189,447.00 made to Idearc, Inc. (Idearc Loans).[21]

PI Two alleges that SCB's possession of the above collaterals was concealed in the RTC rehabilitation proceedings, and that the HD Supply Notes alone had a face value of \$112,917,096.00, or Php4,919,797,872.72, at current exchange rates.[22] Further, SCB allegedly claimed in its Proof of Claim before the US Bankruptcy Court that LBHI's and its affiliates' total obligation under the Group Facilities Agreement was US\$25,889,954.32, or roughly over One Billion Pesos (Php1 billion).[23]

As a result, PI Two filed a Motion with the rehabilitation court, allegedly dated December 28, 2010, praying for SCB to be directed to “disclose the status of its claim against LBHI,” specifically “whether SCB was able to enforce and claim on collaterals subject of the Pledge Agreement.”[24] This motion was supposedly supported by the rehabilitation receiver, who submitted his own Comment thereon.[25] Central to both motion and comment was the allegation of a “prospect of double payment” or possibility of “payment for the same credit twice.”[26]

To such allegations, SCB's response, through its Rejoinder, was that (1) no claims had yet been granted by the bankruptcy court;[27] (2) not all collaterals pledged under the Pledge Agreement were delivered to it;[28] (3) the same were already devalued on account of the LBHI bankruptcy case;[29] and (4) the collaterals could not be foreclosed upon on account of the Stay Order.[30]

The RTC, as rehabilitation court, addressed PI Two's motion in a Resolution dated May 4, 2011, and stated that “it appears that certain collaterals under the Pledge Agreement were indeed delivered by (LBHI) to SCB and that pledged collaterals have devalued.”[31] Therefore, the RTC ordered SCB to submit a list of the collaterals “that have already been delivered to it by LBHI, stating the nature, status, and present value of such collaterals within 15 days.”[32] The RTC, however, denied PI Two's prayers to be furnished all of SCB's pleadings before the US Bankruptcy Court, and to suspend payments to SCB.[33]

To comply with the order, SCB submitted a Certification from a certain Marc Chail, the Area Head, Americas, of SCB's Group Special Assets Management.[34] It disclosed that LBHI delivered \$81,455,477 of HD Supply Notes, (delivered to SCB's DTC or Depository Trust Company account), and LBHI's interest in \$87,189,447 of loans made to Idearc.[35] It revealed further that, at that time, the face value of the HD Supply Notes was \$112,917,096.00.[36]

On July 15, 2011, MRMAH2 filed an Omnibus Motion to remove SCB from PI Two's management committee and to suspend further payments to SCB, noting that the latter was adequately secured by the pledged collaterals.[37]

In an Opposition dated August 31, 2011, SCB argued that the mere existence of a security, before foreclosure, does not assure full payment and does not extinguish the obligation.[38] SCB stated that it had not foreclosed on the security because of the stay order issued by the US Bankruptcy Court.[39] SCB also alleged that the face value of the HD Supply Notes is different from its market value and the latter is much lower and even declines.[40]

In a Resolution dated September 26, 2011, acting on MRMAH2's Omnibus Motion, the RTC removed SCB from the management committee.[41] It also stated that SCB had not been transparent regarding the collaterals it was holding and was constrained to reveal the same only after being compelled under the Order dated May 4,

2011.[42] However, it required SCB to “surrender and release,” proportionately, portions of the collaterals every time payment is made by PI Two under the rehabilitation plan, with PI Two holding the said collaterals in trust for the real owners of the credit.[43]

On May 25, 2012, LBHI and Lehman Commercial Paper, Inc. (LCPI) filed before the US Bankruptcy Court an Adversary Complaint and Claims Objection against SCB and SCB Korea, which sought, in part, the “avoiding of the transfers” of collateral covered by the Pledge Agreement to SCB, as well as the Pledge Agreement itself, as having been made, in part, “with intent to hinder, delay or defraud LBHI's creditors.”[44]

On January 23, 2013, SCB filed a Manifestation before the RTC stating that it had settled with LBHI the Adversary Complaint filed by LBHI, as well as other claims in the bankruptcy proceedings, through a so-called Stipulation, Agreement and Order Among LBHI, LCPI, SCB, and SCB Korea Regarding Settlement of Adversary Proceeding and Allowance of Certain Claim (“Stipulation, Agreement and Order”), dated January 22, 2013.[45] At that time, SCB also manifested that such Stipulation, Agreement and Order “shall become effective only upon approval of the US Bankruptcy Court,” which approval SCB undertook to relay to the RTC once obtained.[46]

Such approval of the Stipulation, Agreement and Order by the US Bankruptcy Court came on January 31, 2013.[47]

Then, the Rehabilitation Receiver submitted before the RTC a Comment (on SCB's Submission dated February 1, 2013) dated February 25, 2013,[48] stating, among other things that:

“4. The above paragraph clearly shows the intention of the parties for SCB to be paid under the approved payment plan by the (US Bankruptcy Court). Having entered into a settlement with LBHI and having been paid a catch-up amount, as well as being assured of payment of other claims because the claim has been allowed in the US Bankruptcy Court, SCB has lost its standing before this Honorable Court and shall now have to collect, by its own choice, from LBHI in the (US Bankruptcy Court). This is further emphasized by Paragraph 8 of Annex “B” where LBHI shall be “entitled to its rights of subrogation relating to the Proofs of Claim as set forth in the Guarantee of the Plan.”

xxx xxx

6. Undersigned, therefore, recommends that the claim of SCB now pending before this Honorable Court should be dismissed. In addition, there is an amount in escrow in Metrobank in the name of the undersigned Receiver in the amount of PHP34,511,095.05. Undersigned recommends that this amount now be released to Philippine Investment Two (SPV-AMC), Inc.”[49] (Emphasis supplied.)

This was followed by PI Two's filing of an Urgent Motion dated March 6, 2013,[50] which prayed for SCB's removal from PI Two's list of creditors and its return of all amounts it had received as payments from PI Two under the rehabilitation plan, among other things.[51] The motion's prayers were in partly grounded on PI Two's argument that its debt to SCB had been extinguished due to two alternative grounds:

“A. The Stipulation, Agreement and Order amounts to a sale of the thing pledged which extinguishes the principal obligation;

B. LBHI, as a solidary debtor to PI Two, had already paid in full all of SCB's claims under the Group Facilities by transferring its ownership over the HD Supply Notes to SCB.”[52]

SCB filed an Opposition dated May 27, 2013, to the Urgent Motion of PI Two, rejecting the application of Article 2115 of the Civil Code[53] for the reason that the Stipulation, Agreement and Order was allegedly governed by New York Law.[54]

Meanwhile, Metrobank, which is also a creditor of PI Two, filed a Comment dated April 15, 2013 noting that

according to SCB's Submission, SCB admitted its receipt of cash payments in the US bankruptcy proceedings and the release of the pledged collaterals.[55] Metrobank prayed that SCB's claim be removed in the rehabilitation plan, subject to "conclusive proof" of the extent of non-payment of SCB's claim in the US bankruptcy proceedings, and that, in its stead, all incoming funds intended for PI Two be applied to the latter's obligations to Metrobank.[56]

The RTC's Ruling

On August 30, 2013, the RTC, as rehabilitation court, resolved: 1) the Urgent Motion of PI Two dated March 6, 2013; 2) the Motion (by creditor PI One) to Order Rehabilitation Receiver to Release Escrow Amount dated March 14, 2013; and 3) the Urgent Motion of MRMAHI2 dated March 14, 2013, through a Joint Resolution of even date, which is the subject of the instant appeal.

The RTC held that "bas(ed) on the recent developments that have transpired in the US Bankruptcy Court on the allowed SCB guarantee claim, xxx SCB Philippines has been paid and will be paid under future distributions under the Lehman Plan, on account of SCB's claims in (the) rehabilitation proceedings." [57] The RTC also noted the rehabilitation receiver's comment that under the Stipulation, Agreement and Order, the parties intended for SCB to be paid under the approved payment plan of the US Bankruptcy Court (USBC-SDNY), and that SCB shall have to collect from LBHI in the US Bankruptcy Court.[58] The RTC found that under the two Promissory Notes (Nos. 93137901039 and 93137901040) which are the bases of SCB's claims against PI Two, the same shall be governed by and construed in accordance with Philippine law.[59] The RTC also held that SCB's opposition to PI Two's argument that its obligation to SCB has been extinguished calls for examination of factual evidence as to the parties' agreements before the US Bankruptcy Court, as well as whether foreign or Philippine law governs.[60] Further, the RTC held that issues related to the Stipulation, Agreement and Order are adversarial in nature, which are beyond the mandate of the rehabilitation court; thus, a separate proceeding is proper before another court.[61]

Hence, the present appeal through a petition for review by SCB.

SCB asserts that the ruling of the RTC, as a rehabilitation court, has no factual nor legal bases and violates its rights to due process.[62] Notably, SCB disagrees with the ruling that it has been and will be paid under the Lehman Plan, as the same is allegedly without legal nor factual basis.[63] SCB also assails the RTC's disregard of its arguments and evidence on the basis of avoidance of "adversarial issues." [64] It characterizes the same as an abdication of the court's constitutional duty.[65]

SCB argues further that the Stipulation, Agreement and Order did not extinguish the loan of PI Two and, in fact, provides for the retroactive allowance of the allowed SCB Guarantee Claim in the LBHI bankruptcy case and not an assurance of continued payment of the PI Two loan.[66] SCB asserts that nothing in the Stipulation, Agreement and Order indicates that SCB has been fully paid, much less assured of payment of the entire amount of the PI Two loan, a fact supported by the testimony of SCB's expert witness on New York law.[67] Instead, the said Stipulation, Agreement and Order allegedly states that the loan shall continue to subsist until fully paid and recognizes that SCB is allowed to simultaneously collect from PI Two, the primary debtor, and LBHI, the guarantor.[68] SCB also stresses that New York law governs the Stipulation, Agreement and Order, and under said law, SCB is not precluded from claiming simultaneously against LBHI as guarantor in the LBHI bankruptcy case and against PI Two as primary debtor in the rehabilitation proceedings.[69]

SCB states that the assailed resolution of the RTC rewards the unjust enrichment of PI Two.[70] SCB claims that (1) it is still entitled to payment of the rest of PIT Two's loan because LBHI has not yet fully paid its guarantee obligation; (2) LBHI admits that the allowed SCB Guarantee Claim would likely be paid off up to only 12.2%;

and (3) even with the payments already received, the principal amount of loan that remains is still at more than Php 645 million. SCB insists that there will be no overpayment or double payment.[71]

The main private respondent, PI Two, prays for the dismissal of SCB's petition for review. In its Comment, PI Two accuses SCB of concealing before this Court the fact of the RTC's (rehabilitation court's) lack of intention to immediately execute its assailed resolution; instead, SCB allegedly misrepresented on the "extreme imminence" of its implementation in order to secure a temporary restraining order (TRO) from this Court.[72] Such concealment allegedly follows SCB's other acts of alleged dishonesty, such as the latter's previous concealment of the Pledge Agreement (between SBC and LBHI), the delivery of the HD Supply Notes and its filing of a proof of claim before the US Bankruptcy Court.[73]

PI Two likewise disputes SCB's claim that the assailed resolution of the RTC has no factual nor legal bases.[74] PI Two argues that the assailed resolution is a 10-page ruling which summarized both parties' arguments, but ultimately sided with its contention that Article 2115 of the Civil Code is applicable.[75] Further, PI Two asserts that the RTC correctly ruled against SCB's arguments regarding the application of New York law and the facts surrounding the execution of the Stipulation, Agreement and Order as these were "irrelevant to the ... issue of whether PI Two's debt was extinguished by ... the sale of the pledged collaterals." [76] The RTC allegedly based it on the finding that the promissory notes upon which SCB's claim against PI Two is based, specifically stated that their governing law is that of the Philippines.[77]

Lastly, PI Two argues that the RTC was correct in ruling that PI Two's debt had been extinguished, as the Stipulation, Agreement and Order "confirmed SCB's ownership over the pledged collaterals." [78] It claims that SCB, in the event of default, had the right to exercise ownership rights and other remedies on the pledged collaterals based on provisions of the Pledge Agreement.[79] PI Two contends that SCB had, in fact, exercised such rights and acquired ownership of the collaterals based on the Stipulation, Agreement and Order, as well as SCB's admission that the HD Supply Notes had been placed in its DTC account.[80] PI Two contends that such, in fact, amounts to a sale of the collaterals which, per Article 2115 of the Civil Code, extinguishes the principal obligation.[81] It also amounts to a dacion en pago or the satisfaction of LBHI's obligation to SCB through the conveyance of the pledged collateral, subject to the suspensive condition of default, per Articles 1254 and 1181 of the Civil Code.[82]

Another private respondent MRMAH2, filed its Comment to SCB's petition, adopting almost the same arguments as main respondent PI Two, to wit: that SCB was accorded due process and that the assailed resolution has adequate legal and factual bases; and that the obligation of PI Two has been extinguished by virtue of the Stipulation, Agreement and Order.[83]

Private respondent PI One, meanwhile, also filed its Comment, raising similar arguments as follows: that the assailed resolution had legal and factual bases and complied with the requirements of due process; and that the court did not err in excluding SCB as creditor on the ground that its claim has been fully settled with the redemption of the pledged collaterals.[84] And contrary to SCB's claims, PI One maintains that the rehabilitation court did not extinguish SCB's claims but only resolved that such should be ventilated in a proper venue.[85]

In its Reply to the private respondents' Comments, SCB insists that the RTC stated no legal nor factual bases for its assailed resolution.[86] It adds that based on the Stipulation, Agreement and Order, the applicable law is New York law, and not Philippine Law.[87] SCB also states that the RTC, in fact, itself did not even cite Article 2115 of the Civil Code as the basis for its resolution.[88] SCB maintains that the RTC's refusal to rule on what it perceived as "adversarial issues" and its ruling based on the private respondents' arguments is a violation of SCB's right to due process and the court's constitutional duty to "settle actual controversies involving rights which

are legally demandable and enforceable.”[89]

SCB also argues that PI Two's allegation of a sale of the pledged collateral “detracts” from the meaning of the Stipulation, Agreement and Order.[90] Far from PI Two's obligations having been extinguished, SCB points to the alleged facts that 1) LBHI has not yet fully paid its so-called Guarantee obligation; 2) the likelihood that the Allowed Guarantee Claim would be paid up to only 12.2%; 3) the principal PI Two loan that remains unpaid is still over Php659 million.[91]

SCB adds that the Pledge Agreement is a security arrangement between LBHI and SCB, intended to secure the payment of LBHI's obligations as guarantor under the Guarantee.[92] There was no transfer of ownership, with all its attributes, but a mere grant of the rights of a pledgee to SCB.[93] There could not have been a dacion en pago either, as the delivery of the pledged collaterals was allegedly only to secure LBHI's obligations under the Guarantee; there likewise was no “explicit agreement” among the parties for a dacion en pago.[94]

SCB also claims that under New York law, it could not attain ownership even in the event of default without foreclosing on the pledged collaterals, or agreeing to accept the same as “partial payment” of the obligation.[95] Further, the delivery of the HD Supply Notes to the DTC account of SCB were allegedly mere “additional means of perfecting SCB's security,” and not an acquisition of ownership.[96] SCB adds that the remittance of the proceeds of the HD Supply Notes to LCPI was “effectively a release of the Collateral” pursuant to the Pledge Agreement, but such was not a release of the direct claims “against the borrowers in their respective proceedings.”[97] Such release also allegedly does not amount to a foreclosure or sale of collateral.[98] Also, such remittance of the proceeds did not amount to SCB relinquishing “any right to claim payment against LBHI” via the SCB Guarantee Claim against LBHI in the latter's bankruptcy proceedings.[99] SCB reiterates that the applicable law to the Pledge Agreement is New York law, which means that even if a sale or foreclosure of collaterals indeed occurred, SCB is still entitled to the balance of its SCB Guarantee Claim if the proceeds of such sale or foreclosure are less than the amount of said claim, “assuming there is no bankruptcy case.”[100] SCB noted further that even if Article 2115 of the Civil Code applied, the sale or foreclosure of the collateral extinguished, not PI Two's obligation, but LBHI's obligations as guarantor.[101]

The Issues

Did the RTC, the rehabilitation court, issue the assailed resolution with sufficient legal and factual bases?

Can petitioner SCB pursue simultaneous claims before the US Bankruptcy Court in New York, (i.e, LBHI's bankruptcy proceedings) and the Philippine rehabilitation court (i.e., PI Two's corporate rehabilitation case) involving the same indebtedness of or money claim against PI Two? Did the allowance of SCB's claim against LBHI before the US Court extinguish its claims in the Philippines against PI Two?

Has SCB received actual payments (either directly or through sale or foreclosure of collaterals) from LBHI?

Which between New York law and Philippine law applies to which obligations of the parties? Does the application of said law result in the extinguishment of PI Two's obligation to SCB?

The Court's Ruling

Petitioner SCB contends that the assailed resolution was bereft of factual and legal bases and violated its right to due process.

The legal and factual bases
of the assailed resolution

It has been held that a court should not over-simplify the issues before it and therefore violate the the letter and

spirit of Article VIII, Section 14 of the Constitution, which states:

“Section 14. No decision shall be rendered by any court without expressing therein clearly and distinctly the facts and the law on which it is based.”

Further, Rule 36, Section 1 of the Rules of Court states:

“Section 1. Rendition of judgments and final orders.- A judgment or final order determining the merits of the case shall be in writing personally and directly prepared by the judge, stating clearly and distinctly the facts and the law on which it is based, signed by him, and filed with the clerk of the court.”

The High Court held, further, that:

“It is a requirement of due process that the parties to a litigation be informed of how it was decided, with an explanation of the factual and legal reasons that led to the conclusions of the court. The court cannot simply say that judgment is rendered in favor of X and against Y and just leave it at that without any justification whatsoever for its action. The losing party is entitled to know why he lost, so he may appeal to a higher court, if permitted, should he believe that the decision should be reversed. A decision that does not clearly and distinctly state the facts and the law on which it is based leaves the parties in the dark as to how it was reached and is especially prejudicial to the losing party, who is unable to pinpoint the possible errors of the court for review by a higher tribunal.”[102]

A judicious perusal of the assailed resolution confirms petitioner SCB's observation that the RTC could have been more elaborate in its statement of the legal and factual justifications for its ruling. Nevertheless, We find that the lower court substantially complied with the constitutional requirements. Aside from summarizing the positions of the parties and stating the proceedings that the case had so far gone through, the Assailed Resolution narrated the issues to be resolved as well as its disposition thereof as follows:

“In resolving these incidents, this rehabilitation court is now being urged to determine the basic issues of – 1) whether or not PI Two's loan payment obligation to SCB was extinguished when Standard Chartered Bank and Lehman Brothers Holdings, Inc., among others, executed their agreement under the Stipulation, Agreement and Order that was approved by the United States Bankruptcy Court on January 31, 2013; and thereby, 2) whether or not SCB is no longer entitled to receive any payment from PI Two, and thus should be excluded from the Rehabilitation Plan; and 3) whether or not SCB be ordered to return the amount PI Two has already paid to date under the Rehabilitation Plan, to avoid double payment.

Invoking Article 2115 of the Civil Code, PI Two avers that the Stipulation, Agreement and Order amounted to a sale of the pledged collateral which in effect extinguished PI Two's loan obligation. On the other hand, SCB insists that under New York law, being the relevant governing law, by which the Stipulation, Agreement and Order was executed by Lehman and SCB, and approved by the Bankruptcy Court, PI Two's obligation to SCB under the Rehabilitation Plan remains unpaid. SCB extensively discussed in its Opposition and Reply that the Stipulation, Agreement and Order which allowed SCB's guarantee claim against Lehman in the Bankruptcy Case, does not constitute payment, nor assures full payment of the allowed Guarantee Claim. In fact, SCB claims that the Stipulation, Agreement and Order expressly allowed that SCB can still collect on the loan obligations of the Philippine Borrowers, up to the extent of full payment.

Basing on the recent developments that have transpired in the US Bankruptcy Court on the allowed SCB guarantee claim, it has become apparent, in so far as the rehabilitation proceedings herein is concerned, that SCB Philippines has been paid and will be paid under future distributions under the Lehman Plan, on account of SCB's claims in this rehabilitation proceedings. This is the clear and simple implication of the terms set forth in the Stipulation, Agreement and Order that was approved by the US Bankruptcy Court.

Moreover, this court has noted that the Rehabilitation Receiver, in his Comment on Standard Chartered Bank's

Submission dated 1 February 2013 has emphasized that relevant provisions under the Stipulation, Agreement and Order clearly shows the intention of the parties for SCB to be paid under the approved payment plan by the USBC-SDNY, and that having entered into a settlement with LBHI, and having been paid a catch-up amount, as well as being assured of payment of other claims because the claim has been allowed in the US Bankruptcy Court, SCB shall now have to collect from LBHI in the USBC-SDNY. Thus, the Rehabilitation Receiver recommends that SCB's claim in this proceedings should be dismissed. Moreover, in his Comment on the 15 March 2013 Letter of Standard Chartered Bank-Philippine Branch dated April 10, 2013, the Rehabilitation Receiver, by way of comment on the Letter of SCB dated March 15, 2013, pointed out - 'that during the chamber conference called by this Honorable Court at which the representatives of SCB Philippines were present, the representatives stated that there were confidential matters involved in the settlement agreement between SCB and LBHI which they could not discuss. Undersigned believes that in order to fully ventilate the issues involved in this case, SCB should lift the veil of confidentiality so that the Honorable Court will know exactly what the settlement agreement was in the Bankruptcy Court.' That 'unless proven otherwise by the release of confidential information, the settlement agreement in the US Bankruptcy Court has effectively released Philippine Investment Two (SPV-AMC), Inc. ('PI Two') from its obligation in favor of SCB Philippines, partly because a) SCB has chosen to settle in New York, and therefore, that is the venue where payment should be obtained, and b) the existence of a clause in the settlement agreement that LBHI is subrogated to SCB. The subrogation agreement can create a messy resolution of the issue where both SCB and LBHI, by virtue of the latter's subrogation, would lay claim to payments from PI Two.'

Records will show that because the issue of the pledged collateral in the US Bankruptcy Court may stall the payments of PI Two to SCB under the Rehabilitation Plan, this court in its Fifth Order dated February 28, 2012 decided that PI Two shall deposit the amount of installment in escrow in the name of the Receiver for the account of SCB, and in its First Order dated July 11, 2012, it reiterated that installment payments due and payable to SCB be deposited in escrow in order to avoid PI Two from paying any penalties until after the collateral issue with Lehman in the Bankruptcy Court shall have been resolved.

Finally, it must be noted that SCB's claim against PI Two are based on the Promissory Notes, sought to be collected upon in this rehabilitation proceedings. A review of the record will show that annexed to the Comment dated October 29, 2008 of Standard Chartered Bank to the Petition, are the Promissory Notes PN 93137901039 dated August 13, 2008 and PN No. 93137901040 dated September 10, 2008 which, under its Common Provisions provided that the notes shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

At the onset, this court, sitting as a rehabilitation court, after taking into account the various creditors' and stakeholders' claims, upon all material and relevant disclosures submitted then, have approved the rehabilitation plan of PI Two. However, in the course of the proceedings, it has become inevitable that certain claims and issues have to be addressed still by this court, if only to help in the success of the rehabilitation plan.

Considering the issues now being raised by SCB in resisting PI Two's assertion that its obligation to SCB is already extinguished by virtue of the Stipulation, Agreement and Order, this rehabilitation court believes that it is now being called upon to examine factual evidence underlying the parties' agreement before the US Bankruptcy Court, as well as the foreign law that governs the execution of the said agreement vis-a-vis Philippine law affecting the same. The issues now raised by SCB, brought about by the existence of the Stipulation, Agreement and Order has clearly become adversarial in nature, and as such is already beyond this rehabilitation court's mandate. This court deems it proper under these circumstances, that these issues must be ventilated in a proper court proceeding separate from the herein rehabilitation proceedings.

This court is reminded that - 'Rehabilitation proceedings are summary and non-adversarial in nature, and do not contemplate adjudication of claims that must be threshed out in ordinary court proceedings. Adversarial proceedings similar to that in ordinary courts are inconsistent with the commercial nature of a rehabilitation

case. The latter must be resolved quickly and expeditiously for the sake of the corporate debtor, its creditors and other interested parties. Thus, the Interim Rules “incorporate the concept of prohibited pleadings, affidavit evidence in lieu of oral testimony, clarificatory hearings instead of the traditional approach of receiving evidence, and the grant of authority to the court to decide the case, or any incident on the basis of affidavits and documentary evidence.”[103] (*Italics in original.*)

It bears emphasis that the issues that the assailed resolution sought to address “- 1) whether or not PI Two's loan payment obligation to SCB was extinguished when Standard Chartered Bank and Lehman Brothers Holdings, Inc., among others, executed their agreement under the Stipulation, Agreement and Order that was approved by the United States Bankruptcy Court on January 31, 2013; and thereby, 2) whether or not SCB is no longer entitled to receive any payment from PI Two, and thus should be excluded from the Rehabilitation Plan; and 3) whether or not SCB be ordered to return the amount PI Two has already paid to date under the Rehabilitation Plan, to avoid double payment -”[104] are mostly factual in nature which require a reading and interpretation of the Stipulation, Agreement and Order.

Such factual issues, however, were addressed by the RTC when it stated that it relied on the comments made by the rehabilitation receiver that “relevant provisions under the Stipulation, Agreement and Order clearly shows the intention of the parties for SCB to be paid under the approved payment plan by the (US Bankruptcy Court), and that having entered into a settlement with LBHI, and having been paid a catch-up amount, as well as being assured of payment of other claims because the claim has been allowed in the US Bankruptcy Court, SCB shall now have to collect from LBHI in the (US Bankruptcy Court); thus, the Rehabilitation Receiver recommends that SCB's claim in this proceedings should be dismissed.”[105] Further, the court noted SCB's hesitation to disclose confidential matters involving its settlement with LBHI, and stressed that “unless proven otherwise by the release of confidential information, the settlement agreement in the US Bankruptcy Court has effectively released Philippine Investment Two (SPV-AMC), Inc. (“PI Two”) from its obligation in favor of SCB Philippines, partly because a) SCB has chosen to settle in New York, and therefore, that is the venue where payment should be obtained, and b) the existence of a clause in the settlement agreement that LBHI is subrogated to SCB; the subrogation agreement can create a messy resolution of the issue where both SCB and LBHI, by virtue of the latter's subrogation, would lay claim to payments from PI Two.”[106]

Although it would have been more desirable for the court to have pointed out the relevant provisions in the Stipulation, Agreement and Order that led it and the rehabilitation receiver to the same conclusion, they are readily accessible in the records, either from the Stipulation, Agreement and Order itself[107] or the comment by the rehabilitation receiver,[108] as cited by the court. Thus, We hold that the rehabilitation court's findings are supported by the facts on record. In particular, the rehabilitation receiver mentions of a catch-up amount as proof of SCB's intention to be paid before the US Bankruptcy Court under paragraph 6 of the Stipulation, Agreement and Order, to wit:

“6. Provided that the Effective Date occurs on or before February 1, 2013, (i) SCB shall be entitled to credit against the amount to be paid to LCPI pursuant to paragraph 9(b) below, the sum of \$1,547,943.19, which represents the amount SCB would have received in respect of the Philippine Proof of Claim, had such claim been allowed on the dates of all prior distributions made by LBHI to holders of Class 5 claims under the Plan xxx.”[109]

Further, the rehabilitation receiver cites paragraph 7, also of the Stipulation, Agreement and Order, which enumerates ways by which SCB's claim would be paid, to wit:

“7. xxx (i) the Philippine Catch-Up Amount, (ii) all additional amounts distributed to SCB in respect of the Allowed SCB Claim in accordance with the terms of the Plan, and (iii) all amounts distributed to SCB and

designated as payments of principal on account of SCB's claims in the Philippine rehabilitation proceedings and other proceedings in respect of the transactions underlying the Philippine Proof of Claim xxx.”[110] (Emphasis supplied.)

Also, paragraph 8 of the Stipulation, Agreement and Order provides for LBHI's rights of subrogation as a consequence and as set forth in the Guarantee and the payment plan, to wit:

“8. LBHI shall be entitled to its rights of subrogation relating to the Proofs of Claim as set forth in the Guarantee and the Plan.”[111]

The rehabilitation receiver's comment states that the above-quoted provisions “shows the intention of the parties for SCB to be paid under the approved payment plan” of the US Bankruptcy Court.[112] It also laments that neither the Guarantee nor the Plan of Payment has yet been submitted by SCB, depriving it and the court of information “whether payment ha(d) been made or how payment (was) going to be effected.”[113]

As for SCB's disagreement with the rehabilitation court's and the receiver's interpretation of the Stipulation, Agreement and Order, purportedly when New York law is applied, and its effect on SCB's claims in the Philippines, the court addressed it directly, albeit tersely, when it ruled that Philippine law, and not any foreign law, is applicable to such claim due to the statement to that effect found in the “Common Provisions” of the promissory notes which are the basis of SCB's claim, i.e., the Promissory Notes PN 93137901039 dated August 13, 2008 and PN No. 93137901040 dated September 10, 2008, to wit:[114]

“3. GOVERNING LAW – This Note shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

Be that as it may, We agree with SCB that the court may have incorrectly stated that it is improperly being “called upon to examine factual evidence” and to address issues regarding the Stipulation, Agreement and Order which have “clearly become adversarial in nature.” Such view of the court is incorrect because the Interim Rules of Procedure on Corporate Rehabilitation (“Interim Rules”),[115] the rules then in effect, although declaring that rehabilitation proceedings “shall be summary and non-adversarial nature,” also state that “the court may decide matters on the basis of affidavits and other documentary evidence,” so long as such are not raised in the form of a prohibited pleading.[116] Nevertheless, We find that the court addressed issues concerning the Stipulation, Agreement and Order in the assailed resolution, although it was in large part based on the recommendations of the rehabilitation receiver and the latter's interpretation of the same. Acting based on the recommendations of the rehabilitation receiver is itself not improper. Indeed, one of the powers and functions of such officer is “to recommend any modification of an approved rehabilitation plan as he may deem appropriate.”[117] And such modification may include the exclusion of certain claims or creditors based on legal grounds, as what happened in the proceedings below.

Therefore, We find that, contrary to the allegations of petitioner SCB, the RTC's assailed resolution stated enough legal and factual bases to satisfy the constitutional and procedural requirements.

SCB's simultaneous pursuit of claims
before the US Bankruptcy Court
and the Philippine Rehabilitation
Court

As SCB's claim against LBHI in the latter's bankruptcy proceedings is based on the guarantee LBHI had executed for the payment of the latter's affiliate borrowers' obligations, We examine the pertinent provisions of the said Guarantee, to wit:

“This Guarantee is a guarantee of payment, and not of collection, and you may exercise your rights hereunder against us without first having to take any action against the Borrowers, or any other guarantor. We agree that this Guarantee shall continue to be effective, or be reinstated, as the case may be, in the event the payment of any of the Obligations or any part thereof is rescinded or must be otherwise restored or returned by you upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower, or upon or as a result of the appointment of a receiver, trustee or similar officer of the Borrower or any substantial part of its property.”[118] (Emphasis supplied.)

From the above-quoted provision, one can readily infer that SCB indeed had the right to exercise its right to payments from LBHI, the guarantor, at the same time that it is also making claims from PI Two, the principal debtor, without even any need to first exhaust PI Two's assets nor, indeed, to even take prior action against the latter. It also appears from the said provision that claims may be made against either of the two obligors, or simultaneously against both, as long as the principal debt becomes due. LBHI does not even have the right to a defense of excussion, under Philippine civil law principles on the contract of guaranty.[119] In fact, applying Philippine law, the obligation appears to be not one of guaranty, but one of suretyship, wherein LBHI's obligation is solidary.[120] In such a case, SCB as the creditor may proceed against any one of the solidary debtors or both of them simultaneously;[121] full payment by any one of the solidary debtors like LBHI extinguishes the obligation.[122] The Supreme Court describes the obligation of the surety in this wise:

“xxx the surety obligates himself to pay the debt if the principal debtor will not pay, regardless of whether or not the latter is financially capable to fulfill his obligation. Thus, a creditor can go directly against the surety although the principal debtor is solvent and is able to pay or no prior demand is made on the principal debtor. Although a surety contract is secondary to the principal obligation, the liability of the surety is direct, primary and absolute; or equivalent to that of a regular party to the undertaking. A surety is considered in law to be on the same footing as the principal debtor in relation to whatever is adjudged against the latter.”[123]

From the foregoing, the ineluctable conclusion that may be drawn is that SCB indeed had the right to collect simultaneously from both LBHI and its affiliate in the Philippines, respondent PI Two, until SCB had collected all its money claims against these debtors based on the relevant agreements such as the Promissory Notes, Group Facilities Agreement, Guarantee, Pledge Agreement and later, the Stipulation, Agreement and Order. The only restriction is that, with respect to this jurisdiction, SCB may not recover more than the amount due it under the said contracts nor recover on the same credit twice (doubly collect) from both LBHI and PI Two. This is clear from the principles of unjust enrichment[124] and solutio indebiti[125] recognized in Philippine jurisdiction.

The next question is, did the allowance of SCB's claim against LBHI before the US Bankruptcy Court extinguish its claims in the Philippines against PI Two?

We hold that such allowance did not necessarily extinguish such claim. But the definite answer to the question largely depends on the details and intricacies of LBHI's Plan of Payment as established, approved and implemented by the US Bankruptcy Court, a document which, as far as the records before this Court shows, has been withheld from the RTC and the parties by SCB. Technically, the allowance of the claim alone is not an actual payment, as similarly contended by SCB's US Law expert witness, Ms. Cyganowski.[126] As Ms. Cyganowski had surmised, a Class 5 holder of claim like SCB are expected to recover an estimated 12.2% of the amount of their allowed claims.[127] However, such is merely a bare assertion from Ms. Cyganowski, even purely speculative or hearsay, as it is unsupported by documents such as the Plan of Payment itself and other proof which, as previously mentioned, the rehabilitation receiver and the rehabilitation court had lamented were not being furnished nor disclosed by SCB. Such documents would have fully disclosed the amount of payments SCB had received and will continue to receive and if such would be enough to answer for the total obligation, without need for any more claims against PI Two. Absent such documents, We rely on other evidence available

on record to make the finding if indeed, the subject obligation had been extinguished.

The RTC made its assailed ruling in the context of its previous notices that certain facts and information were being withheld from it and the rehabilitation receiver by SCB. Such instances are as follows:

- a) Non-disclosure to the rehabilitation court of the Proof of Claim made by SCB with the US Bankruptcy Court regarding the bankruptcy proceedings of LBHI, as well as the Pledge Agreement and its status, contained in the Comment dated January 7, 2011 of the rehabilitation receiver to the motion filed by PI Two.[128]
- b) Non-disclosure of collaterals which were delivered by LBHI to SCB, as well as their nature, status and current value, as stated in the RTC's Resolution dated May 4, 2011.[129]
- c) Withholding by SCB of information that the court had required to be disclosed in its Resolutions of December 14, 2009, May 4, 2011 and May 6, 2011, which the RTC claimed was in "bad taste" and led it, in its Resolution dated September 26, 2011, to remove SCB from the management committee.[130]
- d) Non-inclusion by SCB of either the Guarantee or the Plan of Payment in its Submission dated February 1, 2013, which informed the court of a "compromise agreement" between it and LBHI. According to the rehabilitation receiver in its Comment dated February 25, 2013 to such Submission, the withholding of the Guarantee or Plan of Payment left him with no clue on "whether payment has been made or how payment is going to be effected," however, he still recommended exclusion of SCB's claims from the rehabilitation proceedings as SCB is assured of payment and has chosen to collect in the US Bankruptcy Court.[131]
- e) The existence of certain "confidential matters" in the settlement between SCB and LBHI, which SCB refuses to discuss and which the rehabilitation receiver recommends should be disclosed "so that the (rehabilitation) court will know exactly what the settlement agreement was in the (US) Bankruptcy Court," as noted by the RTC in its assailed Resolution dated August 30, 2013.[132]

SCB's receipt of payments
from LBHI

SCB maintains that a) LBHI has not yet fully paid its so-called Guarantee obligation; b) there is a likelihood that the Allowed Guarantee Claim would be paid up to only 12.2%; and c) the principal PI Two loan that remains unpaid is still over Php659 million.[133] As for the Pledge Agreement, there was no transfer of ownership, with all its attributes, but a mere grant of the rights of a pledgee to SCB.[134] SCB also claims that under New York law, it could not attain ownership even in the event of default without foreclosing on the pledged collaterals, or agreeing to accept the same as "partial payment" of the obligation.[135] It adds that the remittance of the proceeds of the HD Supply Notes to LCPI was a "effectively a release of the Collateral" pursuant to the Pledge Agreement, but such was not a release of the direct claims "against the borrowers in their respective proceedings." [136] Such release also allegedly does not amount to a foreclosure or sale of collateral.[137] Also, such remittance of the proceeds did not amount to SCB relinquishing "any right to claim payment against LBHI" via the SCB Guarantee Claim against LBHI in the latter's bankruptcy proceedings.[138] SCB reiterates that the applicable law to the Pledge Agreement is New York law, which means that even if a sale or foreclosure of collaterals had indeed occurred, SCB is still entitled to the balance of its SCB Guarantee Claim if the proceeds of such sale or foreclosure are less than the amount of said claim, "assuming there is no bankruptcy case." [139] SCB notes further that even if Article 2115 of the Civil Code were applicable, the sale or foreclosure of the collateral extinguished, not PI Two's obligation, but LBHI's obligations as guarantor.[140]

For its part, PI Two alleges that SCB is still claiming the full amount of US\$25,607,813.99 (based on the Stipulation, Agreement and Order), the US dollar equivalent of the total loan obligation of LBHI's Philippine affiliates amounting to Php1,216,051,154.17, inclusive of PI Two's loan obligation to SCB of Php819,000,000.00,

when the truth is, SCB had already received payments from PI Two amounting to more than Php240 million with an additional Php34.5 million in escrow in the name of the rehabilitation receiver.[141] What PI Two seems to be alleging is that SCB is attempting to collect in excess of what it is owed by PI Two by pursuing two simultaneous actions against two different obligors in different jurisdictions, to collect on essentially the same loan, while consciously concealing from either tribunal the developments, specifically, the collections it had made, in the other. PI Two then proceeds to enumerate the many instances when such concealment was done against the rehabilitation court.[142] One such concealment was SCB's alleged representation that the collaterals in the form of HD Supply Notes were of "small value" when they were in fact redeemed in the amount of \$64,341,407.29 or close to Php3 billion, which redemption, SCB, in turn, claimed to have delivered to LCPI under the terms of the Stipulation, Agreement and Order.[143]

In ruling on these conflicting assertions, We prudently put great weight on the findings of the rehabilitation court, based on the recommendations of the rehabilitation receiver, being the commercial court with greater expertise on such cases.[144] But even upon Our own examination, We agree with private respondents' contention that the remittance or delivery of the pledged collaterals, or their proceeds, to either LBHI or to any of its other creditors, amounts to an exercise of ownership rights over said collaterals, one of which rights is the right to make a sale or transfer of such collaterals which has the effect of extinguishing PI Two's obligation. We also conclude that SCB has been paid and will be paid under the Plan of the US Bankruptcy Court. Such sale or transfer of SCB's acquired ownership over the said collaterals, as well as the payment or assurance of payment under the LBHI plan, are evident in the following facts:

- Paragraph 8 of the Stipulation, Agreement and Order[145] which states that the recipient, LBHI, is entitled to rights of subrogation relating to the Proofs of Claim as set forth in the Guarantee and the Plan. Such is crucial because the grant of rights of subrogation to LBHI means that SCB could have already received valuable consideration from LBHI. SCB would not have renounced its rights over the collaterals to LBHI without anything in exchange, such as an assurance that it would be paid under the payment plan. Further, with LBHI subrogated in SCB's rights, it only follows that SCB's claims had been extinguished. The rehabilitation court could not allow what the rehabilitation receiver calls a "messy" situation where both LBHI and SCB would be collecting from PI Two over the same loan. SCB necessarily needs to be excluded as creditor to prevent such situation from happening.

- Paragraph 12 of the Stipulation, Agreement and Order[146] which essentially provides that it releases, discharges, waives, and acquits the parties thereto (except for payments to be made and other obligations under the said Stipulation, Agreement and Order) from claims arising from i) the Proofs of Claim; ii) the Guarantee and Pledge Agreement; and iii) the Adversary Proceeding, provided that such will not release the 1) the Direct Claims; 2) the borrowers under the Group Facilities Agreement; or, until the Allowed SCB Claim has been paid in full as set forth therein, extinguish or terminate the Group Facilities Agreement or the promissory notes or other loan documents. The provisions of this paragraph could have been the basis of the RTC's conclusion that it was "the intention of the parties for SCB to be paid under the approved payment plan by the (US Bankruptcy Court), and that having entered into a settlement with LBHI, and having been paid a catch-up amount, as well as being assured of payment of other claims because the claim has been allowed in the US Bankruptcy Court, SCB shall now have to collect from LBHI in the (US Bankruptcy Court)."

- SCB's own acknowledgement, in its Manifestation[147] before the Court of Appeals in CA-G.R. SP No. 119755, that it had remitted the redemption amount of US\$64,341,407.29 of the HD Supply Notes to LCPI, pursuant to the Stipulation, Agreement and Order, which redemption and remittance could not have been made

had SCB not been the owner thereof, especially since the remittance was not made to the pledgor, LBHI, but to another entity, LCPI.

Which law is applicable

As for PI Two's obligations evidenced by the promissory notes, i.e., Nos. 93137901039 and 93137901040, there is no question that such is covered by the law of this forum, the Philippine law. Such is explicit in the provisions of the notes themselves. Otherwise, SCB itself would not have participated in the rehabilitation proceedings of the RTC, where it admits the jurisdiction of that court and the application of Philippine law. Further, even if the security for the loan, i.e., the guarantee by LBHI and the Pledge Agreement to secure such guarantee, were executed in New York and specifically provide for the application of New York law in their interpretation and enforcement, this does not foreclose application of Philippine law if the issue is the extinguishment of the loan executed in this jurisdiction vis-a-vis the fulfillment of the security executed abroad. It is unavoidable that fulfillment of the security abroad, by a foreign solidary debtor, in favor of the same creditor would extinguish the said creditor's claims against another obligor in this jurisdiction, as essentially, the obligation had been fulfilled and the creditor could not collect more than its credit under the principles of unjust enrichment^[148] and solutio indebiti^[149] that are enforced in Philippine jurisdiction. As earlier discussed, such fulfillment or extinguishment of PI Two's debt overseas by its co-obligor comes in the form of the Stipulation, Agreement and Order, under which SCB had agreed to be paid by LBHI, and the sale or transfer by SCB of the pledged collaterals which, under Article 2115 of the Civil Code, extinguishes the debt that they secure. Even considering the argument of SCB that the pledge was meant to secure only LBHI's guarantee, and not PI Two's obligations, still, the effect is the same, since the fulfillment of LBHI's guarantee in turn also fulfills the main debt of PI Two and as noted earlier, LBHI and PI Two were solidary obligors under the Guarantee agreement between LBHI and SCB.

But what of the testimony of SCB's expert witness on New York law, Ms. Cyganowski, who alleged that, applying New York law, even if there was a sale or foreclosure of the collaterals, SCB would still be entitled to the balance of the SCB Guarantee Claim if the proceeds of such sale or foreclosure are less than the amounts of said claim?^[150]

We disregard the same due to the following reasons: First, the witness qualifies her answer by "assuming that there is no bankruptcy case,"^[151] a situation that does not apply since a bankruptcy case is in fact ongoing in New York; the witness conveniently does not discuss if the implications would be the same now that bankruptcy proceedings are ongoing. Second, the question is qualified by the phrase, "if the proceeds of such sale or foreclosure are less than the amounts of said claim."^[152] As earlier stated, the redemption price of the HD Supply Notes alone was \$64,341,407.29 or close to Php3 billion, which is more than the amount of Php659 million that SCB claims still remains of PI Two's original principal loan of Php819,000,000.00.^[153] Having redeemed the said amount before remitting the same to LCPI, and presumably, for a consideration, such amount more than covers PI Two's principal indebtedness.

Petition for Indirect Contempt (CA-G.R. SP. No. 132088)

The Facts

PI Two filed a Petition for Indirect Contempt against respondents SCB, represented by Duncan van der Feltz ("van der Feltz"), and Atty. Patricia-Ann T. Prodigalidad ("Atty. Prodigalidad"), accusing them of "abusing court proceedings and degrading the administration of justice in CA-G.R. SP. No. 131652," by "misleading and deceiving" this Court into "believing that it had to issue a Temporary Restraining Order (TRO) and Temporary Mandatory Order (TMO)" in said case "when there was no urgency nor necessity therefor."^[154]

Petitioner PI Two alleges that after the RTC's Joint Resolution dated August 30, 2013 in the rehabilitation proceedings was promulgated, the other parties, PI One and MRMAH2, filed motions for the execution thereof.[155] When the said motions were heard on September 10, 2013, the presiding judge allegedly scheduled a "judicially mediated settlement talks" and expressed his hesitation at executing the Joint Resolution without such talks.[156] Also during the hearing, PI Two alleges that respondent Atty. Prodigalidad falsely manifested to the court that she had received copy of the Joint Resolution only that morning, when in her Petition for Review in CA-G.R. SP. No. 131652, SCB manifested that it, by counsel, had "secured a copy" of the Joint Resolution on September 6, 2013.[157] PI Two received SCB's Motion for Additional Time to File Petition for Review (CA-G.R. SP. No. 131652) on September 10, 2013.[158] Then, it received SCB's Petition for Review (with Urgent Application for the Ex Parte Issuance of a Temporary Restraining Order and Temporary Mandatory Injunction) on September 12, 2013.[159] That same day, PI Two allegedly also received a Manifestation and Urgent Motion from SCB, where the latter prayed for the consideration of its pending application for TRO and TMO, citing the following as reasons: "the termination of the rehabilitation proceedings xxx and/or (that the) dissipation of PI Two's assets or diversion thereof xxx is extremely imminent." [160] This Court's Resolution dated September 12, 2013 in CA-G.R. SP. No. 131652 granted SCB's prayer for a TRO.[161]

Moreover, PI Two alleges that although the above-cited pleadings and motions were filed before the September 10, 2013 hearing, "SCB and Atty. Prodigalidad had xxx two days to inform (this Court) of the developments in the September 10, 2013 hearing," in which the RTC had expressed its intention to mediate and its hesitation at immediately executing the Joint Resolution, "that removed the urgency of the TRO." [162] PI Two accuses SCB and Atty. Prodigalidad of not so informing this Court.[163] This Court's TRO was issued after two days.[164]

According to PI Two, "by misleading (this Court) into believing that the issuance of a TRO was required under extremely urgent circumstances when a supervening event removed such urgency, SCB and Atty. Prodigalidad committed indirect contempt of court, since their conduct constituted an abuse of court proceedings, as well as degraded the administration of justice." [165] PI Two cites Subsections (c) and (d) of Section 3, Rule 71 of the Rules of Court, as well as jurisprudence, to support its contentions.[166]

In their Comment, respondents SCB and Atty. Prodigalidad narrated that they received PI One's and MRMAH2's motions for execution on September 6, 2013, even before they received official copy of the Joint Resolution dated August 30, 2013 of the RTC that was being sought to be executed.[167] Thus, that same day, SCB, through counsel, secured a certified copy of the said Joint Resolution.[168] It was only on September 10, 2013, the day of the motions' hearing, that official copy of the Joint Resolution was received by SCB's counsel.[169] It appeared on the markings therein that such was mailed only on September 6, 2013, or seven days after its date of issuance.[170]

Respondents noted that they filed their Petition for Review on September 10, 2013,[171] while they received a copy of this Court's Resolution granting their prayers for a TRO, as prayed for in the petition for review, on September 13, 2013.[172] Despite the TRO, however, SCB's representatives and its counsel, including Atty. Prodigalidad, still attended on September 24, 2013 the judicial mediation as suggested by the RTC.[173]

Respondents argue that no law nor rule requires them to inform the Court of an agreement to undergo mediation during the pendency of any appeal or application for injunctive relief or TRO.[174] They claim that they, in fact, had no choice but to seek injunctive relief from this Court since the Interim Rules provide that all decisions in the rehabilitation proceedings are immediately executory, unless restrained or enjoined by an appellate court.[175] Further, the Supreme Court encourages mediation and allows such even with a pending appeal and application for a TRO.[176]

Respondents add that the threat of executing the Joint Resolution remained imminent as the parties' agreement to undergo mediation alone could not legally stop the execution of the RTC's order.[177] For instance, PI Two could opt to stop participating in the mediation and, in the absence of a TRO, such would change the status quo that SCB was seeking to maintain.[178]

PI Two then filed the instant Petition for Indirect Contempt against respondents SCB, Van Der Feltz and Atty. Prodigalidad on October 4, 2013.[179]

The Issue

Did respondents mislead this Court into issuing the TRO, thereby committing indirect contempt of court through abuse of court proceedings and degradation of the administration of justice?

The Court's Ruling

We deny the petition for indirect contempt.

Petitioner PI Two charges respondents with acts and omissions constituting indirect contempt falling under the following circumstances as outlined in Section 3, Rule 71 of the Rules of Court, to wit:

(c) Any abuse of or any unlawful interference with the processes or proceedings of a court not constituting direct contempt under Section 1 of this Rule;

(d) Any improper conduct tending, directly or indirectly, to impede, obstruct, or degrade the administration of justice;

Petitioner PI Two essentially accuses respondents of committing the above by “misleading and deceiving” this Court into “believing that it had to issue a TRO and TMO” in said case “when there was no urgency nor necessity therefor.”[180] It complains that respondents deliberately did not inform this Court of what transpired in the September 10, 2013 hearing, specifically the setting by the RTC of “judicially mediated settlement talks” and its hesitation at immediately executing the Joint Resolution, that removed the urgency of the TRO, although respondents had “two days” to do so.[181] Thus, this Court was allegedly tricked into issuing the TRO.[182]

We do not agree with petitioner.

Contempt of court is a defiance of the authority, justice or dignity of the court; such conduct as tends to bring the authority and administration of the law into disrespect or to interfere with or prejudice parties litigant or their witnesses during litigation.[183] It is defined as disobedience to the Court by acting in opposition to its authority, justice, and dignity; it signifies not only a willful disregard or disobedience of the court's orders, but such conduct as tends to bring the authority of the court and the administration of law into disrepute or in some manner to impede the due administration of justice.[184]

Thus, a contempt proceeding has a dual function: (1) vindication of public interest by punishment of contemptuous conduct; (2) coercion to compel the contemnor to do what the law requires him to uphold the power of the Court, and also to secure the rights of the parties to a suit awarded by the Court.[185]

In the case at bar, We do not see any malice nor deliberate intent on the part of respondents to withhold from this Court information on the alleged judicially mediated settlement talks and the lower court's disinclination to immediately enforce its resolution, facts which would have supposedly erased the imminence and necessity of the TRO that this Court eventually had issued. First, petitioner PI Two itself admits that the petition for review and its applications for injunctive relief, including for TRO and TMO, were all filed by respondents before the September 10, 2013 hearing during which such information had surfaced. Second, even if respondents allegedly had “two

days” to inform the Court of such developments, We agree with respondents' contentions that the mere conduct of mediation or another form of alternative dispute resolution could not have legally nor procedurally stopped the immediate implementation of the Joint Resolution dated August 30, 2013. Nothing but a preliminary injunction or TRO could have prevented the change of the status quo if, say, the mediation talks fell through, or one of the parties had a change of heart and suddenly chose not to participate in the talks altogether. Such are the reasons why We find that respondents' non-disclosure was not necessarily in bad faith nor improper. Indeed, the Interim Rules specifically Section 5 of Rule 3 thereof categorically state that:

Sec. 5. Executory Nature of Orders. - Any order issued by the court under these Rules is immediately executory. A petition for review or an appeal therefrom shall not stay the execution of the order unless restrained or enjoined by the appellate court. xx xxx xxx (Emphasis supplied.)

Neither the Interim Rules nor the Rules of Court make any mention of other processes with which execution in a rehabilitation case can be stopped outside of an injunction or restraining order from an appellate court. Certainly, mediation talks or mere “reluctance” of the presiding judge are not these instances. The general rule remains that a rehabilitation court's order is immediately executory, with an injunction or TRO and/or TMO from the appellate court being the only exceptions to such rule.

Therefore, there is nothing in the respondents' omissions that We find to have “abused” or “unlawfully interfered” with this Court's proceedings; neither is there any conduct on their part that was “improper” nor tended to “impede, obstruct or degrade the administration of justice.”

Such a conclusion finds support in the fact that the TRO issued by this Court lasted a mere 60 days, “unless sooner lifted.” It was not indefinite and, if indeed it coincided with the ongoing mediation talks below that this Court was not informed about, its issuance was not made less compelling by such talks for the reason that the failure of such talks would have justified the TRO, as it preserved the status quo pending the resolution of SCB's application for injunction. On the other hand, the success of the mediation talks would have simply rendered the TRO moot and superfluous. Neither scenario would have caused any substantial harm or damage to either party.

Therefore, this Court cannot grant petitioner PI Two's prayers to punish respondents SCB, van der Feltz and Atty. Prodigalidad for indirect contempt of court. As the Supreme Court had occasion to rule:

Courts are not powerless to compel obedience to their orders, writs and processes. The power to punish persons for contempt is inherent in all courts and is essential to the preservation of order in all judicial proceedings and to the reinforcement of their lawful orders and decisions. Without the power to punish for contempt, courts would become impotent to maintain the orderly administration of justice and to compel observance to their lawful mandates. However, there is a limitation to this power, as it must be used sparingly. It should be exercised on the preservative, not vindictive principle, and on the corrective and not retaliatory idea of punishment.[186] (Emphasis supplied.)

WHEREFORE, the foregoing premises considered, the petition for review filed by Standard Chartered Bank in CA-G.R. SP. No. 131652 is hereby DENIED and the assailed Joint Resolution dated August 30, 2013 of the Regional Trial Court of Makati (Branch 149), in SP. Proc. (Case) No. M-6683, is hereby AFFIRMED.

The petition for indirect contempt filed by PI Two in CA-G.R. SP. No. 132088 is hereby DENIED.

SO ORDERED.

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, it is hereby certified that the conclusions in the above decision were reached in consultation before the case was assigned to the writer of the opinion of the Court.

Gaerlan, S.H., and Paredes, V.I.A., JJ., concur.

[1] Rollo (CA-G.R. SP. No. 161652), pp. 3939-3948.

[2] Id. at 3947-3948.

[3] Rollo, pp. 18-19.

[4] Id. at 20.

[5] Id.

[6] Id.

[7] Id.

[8] Id.

[9] Id.

[10] Id. at 22.

[11] Id. at 22-22a.

[12] Id. at 3202.

[13] Id.

[14] Id.

[15] Id. at 3203.

[16] Id. at 3203-3204.

[17] Id.

[18] Id.

[19] Id. at 3203.

[20] Id. at 20-21.

[21] Id. at 21.

[22] Id. at 3203; the dollar amount is presumed to be in US currency.

[23] Id. at 3204.

[24] Id.

[25] Id.

[26] Id.

[27] Id. at 3319.

[28] Id. at 3320.

[29] Id.

[30] Id.

[31] Id. at 3505.

[32] Id.

[33] Id. at 3505-3506.

[34] Id. at 3205-3206.

[35] Id.

[36] Id. at 3507.

[37] Id. at 3206, 3512.

[38] Id. at 3206, 3551, 3552.

[39] Id. at 3553.

[40] Id. at 3558-3568.

[41] Id. at 3587-3588.

[42] Id.

[43] Id. at 3588.

[44] Id. at 3647-3665.

[45] Id. at 3207, 3667-3669.

[46] Id at 3669.

[47] Id. at 3209, 3689.

[48] Id. at 3692-3695.

[49] Id. at 3694.

[50] Id. at 3699-3724.

[51] Id. at 3717-3718.

[52] Id. at 3211, 3707.

[53] Art. 2115. The sale of the thing pledged shall extinguish the principal obligation, whether or not the proceeds of the sale are equal to the amount of the principal obligation, interest and expenses in a proper case. If the price of the sale is more than said amount, the debtor shall not be entitled to the excess, unless it is otherwise agreed. If the price of the sale is less, neither shall the creditor be entitled to recover the deficiency, notwithstanding any stipulation to the contrary. (n)

[54] Rollo, p. 3211.

[55] Id. at 3211-3212, 3751.

[56] Id. at 3758.

[57] Id. at 3945.

[58] Id. at 3945-3946.

[59] Id. at 3946-3947.

[60] Id. at 3947.

[61] Id.

[62] Id. at 45-46.

[63] Id. at 46-53.

[64] Id. at 53-61.

[65] Id. at 61-65.

[66] Id. at 65-67.

[67] Id. at 67-78.

[68] Id. at 78-83.

[69] Id. at 83-93.

[70] Id. at 93-95.

[71] Id. at 95-97.

[72] Id. at 3216-3218.

[73] Id. at 3218-3219.

[74] Id. at 3221-3222.

[75] Id. at 3222-3229.

[76] Id. at 3229-3231.

[77] Id. at 3229-3230.

[78] Id. at 3231-3232.

[79] Id. at 3232-3233.

[80] Id. at 3233-3234, 3238.

[81] Id. at 3235.

[82] Id.

[83] Id. at 3914-3930.

[84] Id. at 4144-4157.

[85] Id. at 4157-4158.

- [86] Id. at 4215-4221.
- [87] Id. at 4219-4221.
- [88] Id. at 4221-4223.
- [89] Id. at 4223-4228.
- [90] Id. at 4228-4231.
- [91] Id. at 4231-4232.
- [92] Id. at 4234-4238.
- [93] Id. at 4238-4239.
- [94] Id. at 4240.
- [95] Id. at 4241-4244.
- [96] Id. at 4244-4247.
- [97] Id. at 4249.
- [98] Id. at 4250.
- [99] Id. at 4252.
- [100] Id. at 4255-4257.
- [101] Id. at 4257-4259.
- [102] Nicos Industrial Corp. v. Court of Appeals, G.R. No. 88709, February 11, 1992.
- [103] Rollo, pp. 3946-3947.
- [104] Id. at 3945.
- [105] Id. at 3945-3946, 3697.
- [106] Id. at 3946.
- [107] Id. at 3675-3686.
- [108] Id. at 3692-3695
- [109] Id. at 3680.
- [110] Id. at 3681.
- [111] Id.
- [112] Id. at 3697.
- [113] Id.
- [114] Id. at 3447, 3450.
- [115] A.M. No. 00-8-10-SC, November 21, 2000.
- [116] Id. at Rule 3, Sec. 1.

[117] Id. at Rule 4, Sec. 14(v).

[118] Rollo, p. 3391.

[119] CIVIL CODE, Art. 2058; JN Development Corp. v. Philippine Export and Foreign Loan Guarantee Corp. (G.R. No. 151060, August 31, 2005), Under a contract of guarantee, the guarantor binds himself to the creditor to fulfill the obligation of the principal debtor in case the latter should fail to do so. The guarantor who pays for a debtor, in turn, must be indemnified by the latter. However, the guarantor cannot be compelled to pay the creditor unless the latter has exhausted all the property of the debtor and resorted to all the legal remedies against the debtor. This is what is otherwise known as the benefit of excussion. (Emphasis supplied).

[120] Id. at Arts. 1207, 2047, 2059(2), (3).

[121] Id. at Art. 1216.

[122] Id. at Art. 1217; Escaño v. Ortigas, G. R. No. 151953, June 29, 2007.

[123] Suico Rattan and Buri Interiors, Inc. v. Court of Appeals, G.R. No. 138145, June 15, 2006.

[124] CIVIL CODE, Art. 22; Flores v. Spouses Lindo, G.R. No. 183984, April 13, 2011.

[125] Id. at Arts. 2154-2163.

[126] Rollo, pp. 68-77.

[127] Id. at 74.

[128] Id. at 3285-3286.

[129] Id. at 3501-3506.

[130] Id. at 3586-3588.

[131] Id. at 3696-3698.

[132] Id. at 3939-3948.

[133] Id. at 4231-4232.

[134] Id. at 4238-4239.

[135] Id. at 4241-4244.

[136] Id. at 4249.

[137] Id. at 4250.

[138] Id. at 4252.

[139] Id. at 4255-4257.

[140] Id. at 4257-4259.

[141] Id. at 3210.

[142] Id. at 3205-3211.

[143] Id. at 3209-3210, 3689.

[144] China Banking Corporation v. Cebu Printing and Packaging Corporation, G.R. No. 172880, August 11, 2010.

[145] Rollo, p. 3681.

[146] Id. at 3682-3683.

[147] Id. at 3689.

[148] CIVIL CODE, Art. 22; Flores v. Spouses Lindo, G.R. No. 183984, April 13, 2011.

[149] Id. at Arts. 2154-2163.

[150] Id. at 4255-4257.

[151] Id. at 4255-4257.

[152] Id.

[153] Id. at 3209-3210, 3689.

[154] Rollo (CA-G.R. SP. No. 132088), pp. 3-4.

[155] Id. at 6-7.

[156] Id. at 7.

[157] Id. at 9-10.

[158] Id. at 10.

[159] Id.

[160] Id. at 11.

[161] Id. at 11-12.

[162] Id. at 13-16.

[163] Id. at 16.

[164] Id.

[165] Id. at 17.

[166] Id. at 17-19.

[167] Id. at 5462.

[168] Id.

[169] Id.

[170] Id.

[171] Id. at 5463.

[172] Id. at 5464.

[173] Id.

[174] Id. at 5468.

[175] Id. at 5469.

[176] Id.

[177] Id. at 5472.

[178] Id. at 5473.

[179] Id. at 1-24.

[180] Id. at 3-4.

[181] Id. at 13-16.

[182] Id.

[183] Regalado v. Go, G.R. No. 167988, February 6, 2007.

[184] Id., citing 17 C.J.S. 4, as cited in Heirs of Trinidad de Leon Vda. de Roxas v. Court of Appeals, G.R. No. 138660, 5 February 2004, 422 SCRA 101, 114.

[185] Ceniza v. Wistehuff, G.R. No. 165734, June 16, 2006.

[186] Leonidas v. Supnet, A.M. No. MTJ-02-1433, February 21, 2003.

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