Republic of the Philippines
Supreme Court
Manila

EN BANC

PRYCE CORPORATION, Petitioner,	**G.R. No. 172302**
	Present:
	SERENO, *C.J.*, CARPIO, VELASCO, JR., LEONARDO-DE CASTRO, *BRION, PERALTA, BERSAMIN, DEL CASTILLO, ABAD, VILLARAMA, JR., PEREZ, MENDOZA, REYES, PERLAS-BERNABE, and LEONEN, *JJ.*
-versus-	
CHINA BANKING CORPORATION, Respondent.	**Promulgated:** FEBRUARY 18, 2014

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RESOLUTION

LEONEN, *J.*:

This case resolves conflicting decisions between two divisions. Only one may serve as res judicata or a bar for the other to proceed. This case also settles the doctrine as to whether a hearing is needed prior to the issuance of a stay order in corporate rehabilitation proceedings.

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* On Leave.

The present case originated from a petition for corporate rehabilitation filed by petitioner Pryce Corporation on July 9, 2004 with the Regional Trial Court of Makati, Branch 138.[1]

The rehabilitation court found the petition sufficient in form and substance and issued a stay order on July 13, 2004 appointing Gener T. Mendoza as rehabilitation receiver.[2]

On September 13, 2004, the rehabilitation court gave due course to the petition and directed the rehabilitation receiver to evaluate and give recommendations on petitioner Pryce Corporation's proposed rehabilitation plan attached to its petition.[3]

The rehabilitation receiver did not approve this plan and submitted instead an amended rehabilitation plan, which the rehabilitation court approved by order dated January 17, 2005.[4] In its disposition, the court found petitioner Pryce Corporation "eligible to be placed in a state of corporate rehabilitation."[5] The disposition likewise identified the assets to be held and disposed of by petitioner Pryce Corporation and the manner by which its liabilities shall be paid and liquidated.[6]

On February 23, 2005, respondent China Banking Corporation elevated the case to the Court of Appeals. Its petition questioned the January 17, 2005 order that included the following terms:

> 1. The indebtedness to China Banking Corporation and Bank of the Philippine Islands as well as the long term commercial papers will be paid through a *dacion en pago* of developed real estate assets of the petitioner.
>
> x x x x
>
> 4. All accrued penalties are waived[.]
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> 5. Interests shall accrue only up to July 13, 2004, the date of issuance of the stay order[.]
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> 6. No interest will accrue during the pendency of petitioner's corporate rehabilitation[.]

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1 *Rollo* (vol. 1), pp. 120-134. A copy of this petition for corporate rehabilitation was attached as Annex "F" of the petition.
2 Id. at 135-136. A copy of this order dated July 13, 2004 was attached as Annex "G" of the petition.
3 Id. at 153-155. A copy of this order dated September 13, 2004 was attached as Annex "I" of the petition.
4 Id. at 221-243. A copy of this order dated January 17, 2005 was attached as Annex "K" of the petition.
5 Id. at 239.
6 Id. at 239-243.

> 7. Dollar-denominated loans will be converted to Philippine Pesos on the date of the issuance of this Order using the reference rate of the Philippine Dealing System as of this date.[7]

Respondent China Banking Corporation contended that the rehabilitation plan's approval impaired the obligations of contracts. It argued that neither the provisions of Presidential Decree No. 902-A nor the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules) empowered commercial courts "to render without force and effect valid contractual stipulations."[8] Moreover, the plan's approval authorizing *dacion en pago* of petitioner Pryce Corporation's properties without respondent China Banking Corporation's consent not only violated "mutuality of contract and due process, but [was] also antithetical to the avowed policies of the state to maintain a competitive financial system."[9]

The Bank of the Philippine Islands (BPI), another creditor of petitioner Pryce Corporation, filed a separate petition with the Court of Appeals assailing the same order by the rehabilitation court. BPI called the attention of the court "to the non-impairment clause and the mutuality of contracts purportedly ran roughshod by the [approved rehabilitation plan]."[10]

On July 28, 2005, the Court of Appeals Seventh (7th) Division[11] granted respondent China Banking Corporation's petition, and reversed and set aside the rehabilitation court's: (1) July 13, 2004 stay order that also appointed Gener T. Mendoza as rehabilitation receiver; (2) September 13, 2004 order giving due course to the petition and directing the rehabilitation receiver to evaluate and give recommendations on petitioner Pryce Corporation's proposed rehabilitation plan; and (3) January 17, 2005 order finding petitioner Pryce Corporation eligible to be placed in a state of corporate rehabilitation, identifying assets to be disposed of, and determining the manner of liquidation to pay the liabilities.[12]

With respect to BPI's separate appeal, the Court of Appeals First (1st) Division[13] granted its petition initially and set aside the January 17, 2005 order of the rehabilitation court in its decision dated May 3, 2006.[14] On reconsideration, the court issued a resolution dated May 23, 2007 setting aside its original decision and dismissing the petition.[15] BPI elevated the

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7 Id. at 239.
8 Id. at 614.
9 Id. at 622.
10 *Rollo* (G.R. No. 180316), p. 28.
11 Penned by Associate Justice Vicente Q. Roxas and concurred in by Justices Portia Alino-Hormachuelos and Juan Q. Enriquez, Jr.
12 *Rollo* (vol. 1), pp. 55-70.
13 Penned by Associate Justice Rebecca de Guia-Salvador and concurred in by Justices Ruben T. Reyes and Aurora Santiago-Lagman.
14 *Rollo* (G.R. No. 180316), pp. 84-102.
15 Id. at 182-188.

case to this court, docketed as G.R. No. 180316. By resolution dated January 30, 2008, the First (1st) Division of this court denied the petition.[16] By resolution dated April 28, 2008, this court denied reconsideration with finality.[17]

Meanwhile, petitioner Pryce Corporation also appealed to this court assailing the July 28, 2005 decision of the Court of Appeals Seventh (7th) Division granting respondent China Banking Corporation's petition as well as the resolution denying its motion for reconsideration.

In the decision dated February 4, 2008,[18] the First (1st) Division of this court denied its petition with the dispositive portion as follows:

> WHEREFORE, we **DENY** the petition. The assailed Decision of the Court of Appeals in CA-G.R. SP No. 88479 is **AFFIRMED** with the modification discussed above. Let the records of this case be **REMANDED** to the RTC, Branch 138, Makati City, sitting as Commercial Court, for further proceedings with dispatch to determine the merits of the petition for rehabilitation. No costs.[19]

Petitioner Pryce Corporation filed an omnibus motion for (1) reconsideration or (2) partial reconsideration and (3) referral to the court En Banc dated February 29, 2008. Respondent China Banking Corporation also filed a motion for reconsideration on even date, praying that the February 4, 2008 decision be set aside and reconsidered only insofar as it ordered the remand of the case for further proceedings "to determine whether petitioner's financial condition is serious and whether there is clear and imminent danger that it will lose its corporate assets."[20]

By resolution dated June 16, 2008, this court denied with finality the separate motions for reconsideration filed by the parties.

On September 10, 2008, petitioner Pryce Corporation filed a second motion for reconsideration praying that the Court of Appeals' decision dated February 4, 2008 be set aside.

The First Division of this court referred this case to the En Banc en consulta by resolution dated June 22, 2009.[21] The court En Banc, in its resolution dated April 13, 2010, resolved to accept this case.[22]

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16 Id. at 871.
17 Id. at 878.
18 *Rollo* (vol. 2), pp. 1,627-1,634 [Per J. Sandoval-Gutierrez, First Division].
19 Id. at 1,634 [Per J. Sandoval-Gutierrez, First Division].
20 Id. at 1,644.
21 Id. at 1,804.
22 Id. at 1,805.

On July 30, 2013, petitioner Pryce Corporation and respondent China Banking Corporation, through their respective counsel, filed a joint manifestation and motion to suspend proceedings. The parties requested this court to defer its ruling on petitioner Pryce Corporation's second motion for reconsideration "so as to enable the parties to work out a mutually acceptable arrangement."[23]

By resolution dated August 6, 2013, this court granted the motion but only for two (2) months. The registry receipts showed that counsel for respondent China Banking Corporation and counsel for petitioner Pryce Corporation received their copies of this resolution on September 5, 2013.[24]

More than two months had lapsed since September 5, 2013, but no agreement was filed by the parties. Thus, we proceed to rule on petitioner Pryce Corporation's second motion for reconsideration.

This motion raises two grounds.

First, petitioner Pryce Corporation argues that the issue on the validity of the rehabilitation court orders is now res judicata. Petitioner Pryce Corporation submits that the ruling in *BPI v. Pryce Corporation* docketed as G.R. No. 180316 contradicts the present case, and it has rendered the issue on the validity and regularity of the rehabilitation court orders as res judicata.[25]

Second, petitioner Pryce Corporation contends that Rule 4, Section 6 of the Interim Rules of Procedure on Corporate Rehabilitation[26] does not require the rehabilitation court to hold a hearing before issuing a stay order. Considering that the Interim Rules was promulgated later than *Rizal Commercial Banking Corp. v. IAC*[27] that enunciated the "serious situations" test,[28] petitioner Pryce Corporation argues that the test has effectively been abandoned by the "sufficiency in form and substance test" under the Interim Rules.[29]

The present second motion for reconsideration involves the following issues:

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23 Id. at 1,849.
24 Id. at 1,854.
25 Id. at 1,791.
26 A.M. No. 00-8-10-SC, November 21, 2000, otherwise known as the Interim Rules of Procedure on Corporate Rehabilitation.
27 *Rizal Commercial Banking Corp. v. IAC*, 378 Phil. 10 (1999) [Per J. Melo, En Banc].
28 Id. at 23.
29 *Rollo* (vol. 2), p. 1,794.

I. WHETHER THE ISSUE ON THE VALIDITY OF THE REHABILITATION ORDER DATED JANUARY 17, 2005 IS NOW RES JUDICATA IN LIGHT OF *BPI V. PRYCE CORPORATION* DOCKETED AS G.R. NO. 180316;

II. WHETHER THE REHABILITATION COURT IS REQUIRED TO HOLD A HEARING TO COMPLY WITH THE "SERIOUS SITUATIONS" TEST LAID DOWN IN THE CASE OF *RIZAL COMMERCIAL BANKING CORP. V. IAC* BEFORE ISSUING A STAY ORDER.

We proceed to discuss the first issue.

BPI v. Pryce Corporation docketed as G.R. No. 180316 rendered the issue on the validity of the rehabilitation court's January 17, 2005 order approving the amended rehabilitation plan as res judicata.

In *BPI v. Pryce Corporation*, the Court of Appeals set aside initially the January 17, 2005 order of the rehabilitation court.[30] On reconsideration, the court set aside its original decision and dismissed the petition.[31] On appeal, this court denied the petition filed by BPI with finality. An entry of judgment was made for *BPI v. Pryce Corporation* on June 2, 2008.[32] In effect, this court upheld the January 17, 2005 order of the rehabilitation court.

According to the doctrine of res judicata, "a final judgment or decree on the merits by a court of competent jurisdiction is conclusive of the rights of the parties or their privies in all later suits on all points and matters determined in the former suit."[33]

The elements for res judicata to apply are as follows: (a) the former judgment was final; (b) the court that rendered it had jurisdiction over the subject matter and the parties; (c) the judgment was based on the merits; and (d) between the first and the second actions, there was an identity of parties, subject matters, and causes of action.[34]

Res judicata embraces two concepts: (1) bar by prior judgment[35] and (2) conclusiveness of judgment.[36]

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30 *Rollo* (G.R. No. 180316), pp. 84-102, Court of Appeals decision dated May 3, 2006.
31 Id. at 182-188, Court of Appeals resolution dated May 23, 2007.
32 Id. at 884.
33 *Antonio v. Sayman Vda. de Monje*, G.R. No. 149624, September 29, 2010, 631 SCRA 471, 479-480 [Per J. Peralta, Second Division], *citing Agustin v. Delos Santos*, G.R. No. 168139, January 20, 2009, 576 SCRA 576, 585.
34 *Social Security Commission v. Rizal Poultry and Livestock Association, Inc.*, G.R. No. 167050, June 1, 2011, 650 SCRA 50, 57-58 [Per J. Perez, First Division].
35 RULES OF CIVIL PROCEDURE, Rule 39, sec. 47 (b).

Bar by prior judgment exists "when, as between the first case where the judgment was rendered and the second case that is sought to be barred, there is identity of parties, subject matter, and causes of action."[37]

On the other hand, the concept of conclusiveness of judgment finds application "when a fact or question has been squarely put in issue, judicially passed upon, and adjudged in a former suit by a court of competent jurisdiction."[38] This principle only needs identity of parties and issues to apply.[39]

The elements of res judicata through bar by prior judgment are present in this case.

On the element of identity of parties, res judicata does not require absolute identity of parties as substantial identity is enough.[40] Substantial identity of parties exists "when there is a community of interest between a party in the first case and a party in the second case, even if the latter was not impleaded in the first case."[41] Parties that represent the same interests in two petitions are, thus, considered substantial identity of parties for purposes of res judicata.[42] Definitely, one test to determine substantial identity of interest would be to see whether the success or failure of one party materially affects the other.

In the present case, respondent China Banking Corporation and BPI are creditors of petitioner Pryce Corporation and are both questioning the rehabilitation court's approval of the amended rehabilitation plan. Thus, there is substantial identity of parties since they are litigating for the same matter and in the same capacity as creditors of petitioner Pryce Corporation.

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36 RULES OF CIVIL PROCEDURE, Rule 39, sec. 47 (c). *See also Selga v. Brar*, G.R. No. 175151, September 21, 2011, 658 SCRA 108, 119.

37 *Antonio v. Sayman Vda. de Monje*, 631 SCRA 471, 480 [Per J. Peralta, Second Division], *citing Agustin v. Delos Santos,* G.R. No. 168139, January 20, 2009, 576 SCRA 576, 585.

38 *Antonio v. Sayman Vda. de Monje*, 631 SCRA 471, 480 [Per J. Peralta, Second Division], *citing Hacienda Bigaa, Inc. v. Chavez*, G.R. No. 174160, April 20, 2010, 618 SCRA 559; *Chris Garments Corporation v. Sto. Tomas*, G.R. No. 167426, January 12, 2009, 576 SCRA 13, 21-22; *Heirs of Rolando N. Abadilla v. Galarosa*, 527 Phil. 264, 277-278 (2006).

39 *Antonio v. Sayman Vda. de Monje,* 631 SCRA 471, 481 [Per J. Peralta, Second Division].

40 *Coastal Pacific Trading, Inc. v. Southern Rolling Mills Co., Inc.*, 529 Phil. 10, 33 (2006) [Per J. Panganiban, First Division].

41 *Social Security Commission v. Rizal Poultry and Livestock Association, Inc.*, G.R. No. 167050, June 1, 2011, 650 SCRA 50, 58-59. *See also Coastal Pacific Trading, Inc. v. Southern Rolling Mills, Co., Inc.,* 529 Phil. 10, 33 (2006) [Per J. Panganiban, First Division]; *Cruz v. Court of Appeals (Second Division),* G.R. No. 164797, 517 Phil. 572, 584 (2006) [Per J. Chico-Nazario, First Division].

42 *See University of the Philippines v. Court of Appeals*, G.R. No. 97827, February 9, 1993, 218 SCRA 728, 737-738 [Per J. Romero, Third Division].

There is no question that both cases deal with the subject matter of petitioner Pryce Corporation's rehabilitation. The element of identity of causes of action also exists.

In separate appeals, respondent China Banking Corporation and BPI questioned the same January 17, 2005 order of the rehabilitation court before the Court of Appeals.

Since the January 17, 2005 order approving the amended rehabilitation plan was affirmed and made final in G.R. No. 180316, this plan binds all creditors, including respondent China Banking Corporation.

In any case, the Interim Rules or the rules in effect at the time the petition for corporate rehabilitation was filed in 2004 adopts the cram-down principle which "consists of two things: (*i*) approval despite opposition and (*ii*) binding effect of the approved plan x x x."[43]

First, the Interim Rules allows the rehabilitation court[44] to "approve a rehabilitation plan even over the opposition of creditors holding a majority of the total liabilities of the debtor if, in its judgment, the rehabilitation of the debtor is feasible and the opposition of the creditors is manifestly unreasonable."[45]

Second, it also provides that upon approval by the court, the rehabilitation plan and its provisions "shall be binding upon the debtor and all persons who may be affected by it, including the creditors, whether or not such persons have participated in the proceedings or opposed the plan or whether or not their claims have been scheduled."[46]

Thus, the January 17, 2005 order approving the amended rehabilitation plan, now final and executory resulting from the resolution of *BPI v. Pryce Corporation* docketed as G.R. No. 180316, binds all creditors including respondent China Banking Corporation.

This judgment in *BPI v. Pryce Corporation* covers necessarily the rehabilitation court's September 13, 2004 order giving due course to the petition. The general rule precluding relitigation of issues extends to questions implied necessarily in the final judgment, *viz:*

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43 R. LUCILA, CORPORATE REHABILITATION IN THE PHILIPPINES 158-159 (2007), *citing* Atty. Balgos in the October 18, 2000 meeting of the SC Committee on SEC Cases.

44 Under Sec. 5.2 of the Securities Regulation Code, commercial courts have primary jurisdiction over petitions for corporate rehabilitation.

45 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 23.

46 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 24 (a).

> The general rule precluding the relitigation of material facts or questions which were in issue and adjudicated in former action are commonly applied to all matters essentially connected with the subject matter of the litigation. Thus, it extends to questions necessarily implied in the final judgment, although no specific finding may have been made in reference thereto and although such matters were directly referred to in the pleadings and were not actually or formally presented. x x x.[47]

The dispositive portion of the Court of Appeals' decision in *BPI v. Pryce Corporation*, reversed on reconsideration, only mentioned the January 17, 2005 order of the rehabilitation court approving the amended rehabilitation plan. Nevertheless, the affirmation of its validity necessarily included the September 13, 2004 order as this earlier order gave due course to the petition and directed the rehabilitation receiver to evaluate and give recommendations on the rehabilitation plan proposed by petitioner.[48]

In res judicata, the primacy given to the first case is related to the principle of immutability of final judgments essential to an effective and efficient administration of justice, *viz*:

> x x x [**W]ell-settled is the principle that a decision that has acquired finality becomes immutable and unalterable** and may no longer be modified in any respect even if the modification is meant to correct erroneous conclusions of fact or law and whether it will be made by the court that rendered it or by the highest court of the land.
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> The reason for this is that litigation must end and terminate sometime and somewhere, and **it is essential to an effective and efficient administration of justice** that, once a judgment has become final, the winning party be not deprived of the fruits of the verdict. Courts must guard against any scheme calculated to bring about that result and must frown upon any attempt to prolong the controversies.
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> The only exceptions to the general rule are the correction of clerical errors, the so-called *nunc pro tunc* entries which cause no prejudice to any party, void judgments, and whenever circumstances transpire *after* the finality of the decision rendering its execution unjust and inequitable.[49] (Emphasis provided)

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47 *Alamayri v. Pabale*, 576 Phil. 146, 159 (2008) [Per J. Chico-Nazario, Third Division], *citing Calalang v. Register of Deeds*, G.R. No. 76265, March 11, 1994, 231 SCRA 88, 99-100.

48 *Rollo* (vol. 1), pp. 153-155. A copy of this order dated September 13, 2004 was attached as Annex "I" of the petition.

49 *Siy v. NLRC,* 505 Phil. 265, 274 (2005) [Per J. Corona, Third Division], *citing Sacdalan v. Court of Appeals*, G.R. No. 128967, May 20, 2004, 428 SCRA 586, 599, *further citing Philippine Veterans Bank v. Judge Estrella*, 453 Phil. 45, 51 (2003) [Per J. Callejo, Sr., Second Division] and *Salva v. Court of Appeals*, 364 Phil. 281, 294-295 (1999) [Per J. Puno, Second Division].

Generally, the later case is the one abated applying the maxim *qui prior est tempore, potior est jure* (he who is before in time is the better in right; priority in time gives preference in law).[50] However, there are limitations to this rule as discussed in *Victronics Computers, Inc. v. Regional Trial Court, Branch 63, Makati:*[51]

> In our jurisdiction, the law itself does not specifically require that the pending action which would hold in abatement the other must be a pending *prior* action. Thus, in *Teodoro vs. Mirasol*, this Court observed:
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> > It is to be noted that the Rules do not require as a ground for dismissal of a complaint that there is a *prior* pending action. **They provide that there is a pending action, not a pending *prior* action.** The fact that the unlawful detainer suit was of a later date is no bar to the dismissal of the present action. We find, therefore, no error in the ruling of the court *a quo* that plaintiff's action should be dismissed on the ground of the pendency of another more appropriate action between the same parties and for the same cause.
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> In *Roa-Magsaysay vs. Magsaysay*, wherein it was the first case which was abated, this Court ruled:
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> > In any event, since We are not really dealing with jurisdiction but mainly with venue, considering both courts concerned do have jurisdiction over the causes of action of the parties herein against each other, **the better rule in the event of conflict between two courts of concurrent jurisdiction as in the present case, is to allow the litigation to be tried and decided by the court which, under the circumstances obtaining in the controversy, would, in the mind of this Court, be in a better position to serve the interests of justice, considering the nature of the controversy, the comparative accessibility of the court to the parties, having in view their peculiar positions and capabilities, and other similar factors.** Without in any manner casting doubt as to the capacity of the Court of First Instance of Zambales to adjudicate properly cases involving domestic relations, it is easy to see that the Juvenile and Domestic Relations Court of Quezon City which was created in order to give specialized attention to family problems, armed as it is with adequate and corresponding facilities not available to ordinary courts of first instance, would be able to attend to the matters here in dispute with a little more degree

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50 *Victronics Computers, Inc. v. Regional Trial Court Branch 63, Makati,* G.R. No. 104019, January 25, 1993, 217 SCRA 517, 531 [Per J. Davide, Third Division].

51 Id. at 517.

> of expertise and experience, resulting in better service to the interests of justice. A reading of the causes of action alleged by the contending spouses and a consideration of their nature, cannot but convince Us that, since anyway, there is an available Domestic Court that can legally take cognizance of such family issues, it is better that said Domestic Court be the one chosen to settle the same as the facts and the law may warrant.

We made the same pronouncement in *Ramos vs. Peralta*:

> Finally, **the rule on *litis pendentia* does not require that the later case should yield to the earlier case.** What is required merely is that there be another pending action, not a *prior* pending action. Considering the broader scope of inquiry involved in Civil Case No. 4102 and the location of the property involved, no error was committed by the lower court in deferring to the Bataan court's jurisdiction.

An analysis of these cases unravels the *ratio* for the rejection of the priority-in-time rule and establishes the criteria to determine which action should be upheld and which is to be abated. **In *Teodoro*, this Court used the criterion of the *more appropriate action*.** We ruled therein that the unlawful detainer case, which was filed later, was the more appropriate action because the earlier case — for specific performance or declaratory relief — filed by the lessee (Teodoro) in the Court of First Instance (CFI) to seek the extension of the lease for another two (2) years or the fixing of a longer term for it, was "prompted by a desire on plaintiff's part to anticipate the action for unlawful detainer, the probability of which was apparent from the letter of the defendant to the plaintiff advising the latter that the contract of lease expired on October 1, 1954." The real issue between the parties therein was whether or not the lessee should be allowed to continue occupying the leased premises under a contract the terms of which were also the subject matter of the unlawful detainer case. Consonant with the doctrine laid down in *Pue vs. Gonzales* and *Lim Si vs. Lim*, the right of the lessee to occupy the land leased against the lessor should be decided under Rule 70 of the Rules of Court; the fact that the unlawful detainer case was filed later then of no moment. Thus, the latter was the more appropriate action.

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In *Roa-Magsaysay*[,] the criterion used was the consideration of the *interest of justice*. In applying this standard, what was asked was which court would be "in a better position to serve the interests of justice," taking into account (a) the nature of the controversy, (b) the comparative accessibility of the court to the parties and (c) other similar factors. While such a test was enunciated therein, this Court relied on its constitutional authority to change venue to avoid a miscarriage of justice.

> It is interesting to note that in common law, as earlier adverted to, and pursuant to the *Teodoro vs. Mirasol* case, **the *bona fide*s or good faith of the parties is a crucial element.** In the former, the second case shall not be abated if not brought to harass or vex; in the latter, the first case shall be abated if it is merely an anticipatory action or, more appropriately, an anticipatory defense against an expected suit — a clever move to steal the march from the aggrieved party.[52] (Emphasis provided and citations omitted)

None of these situations are present in the facts of this instant suit. In any case, it is the better part of wisdom in protecting the creditors if the corporation is rehabilitated.

We now proceed to the second issue on whether the rehabilitation court is required to hold a hearing to comply with the "serious situations" test laid down in *Rizal Commercial Banking Corp. v. IAC* before issuing a stay order.

The rehabilitation court complied with the Interim Rules in its order dated July 13, 2004 on the issuance of a stay order and appointment of Gener T. Mendoza as rehabilitation receiver.[53]

The 1999 *Rizal Commercial Banking Corp. v. IAC*[54] case provides for the "serious situations" test in that the suspension of claims is counted only upon the appointment of a rehabilitation receiver,[55] and certain situations serious in nature must be shown to exist before one is appointed, *viz*:

> Furthermore, as relevantly pointed out in the dissenting opinion, a petition for rehabilitation does not always result in the appointment of a receiver or the creation of a management committee. The SEC has to initially determine whether such appointment is appropriate and necessary under the circumstances. Under Paragraph (d), Section 6 of Presidential Decree No. 902-A, certain situations must be shown to exist before a management committee may be created or appointed, such as:
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> 1. when there is imminent danger of dissipation, loss, wastage or destruction of assets or other properties; or
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> 2. when there is paralization of business operations of such corporations or entities which may be prejudicial to the interest of minority stockholders, parties-litigants or to the general public.
>
> On the other hand, receivers may be appointed whenever:

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52 Id. at 531-534.

53 *Rollo* (vol. 1), pp. 135-136. A copy of this order dated July 13, 2004 was attached as Annex "G" of the petition.

54 *Rizal Commercial Banking Corp. v. IAC*, 378 Phil. 10 (1999) [Per J. Melo, En Banc].

55 Id. at 30.

> 1. necessary in order to preserve the rights of the parties-litigants; and/or
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> 2. protect the interest of the investing public and creditors. (Section 6 [c], P.D. 902-A.)
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> These situations are rather serious in nature, requiring the appointment of a management committee or a receiver to preserve the existing assets and property of the corporation in order to protect the interests of its investors and creditors. Thus, in such situations, suspension of actions for claims against a corporation as provided in Paragraph (c) of Section 6, of Presidential Decree No. 902-A is necessary, and here we borrow the words of the late Justice Medialdea, "so as not to render the SEC management Committee irrelevant and inutile and to give it unhampered 'rescue efforts' over the distressed firm" (*Rollo*, p. 265)."
>
> Otherwise, when such circumstances are not obtaining or when the SEC finds no such imminent danger of losing the corporate assets, a management committee or rehabilitation receiver need not be appointed and suspension of actions for claims may not be ordered by the SEC. When the SEC does not deem it necessary to appoint a receiver or to create a management committee, it may be assumed, that there are sufficient assets to sustain the rehabilitation plan, and that the creditors and investors are amply protected.[56]

However, this case had been promulgated prior to the effectivity of the Interim Rules that took effect on December 15, 2000.

Section 6 of the Interim Rules states explicitly that "[i]f the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) days from the filing of the petition, issue an Order (a) appointing a Rehabilitation Receiver and fixing his bond; (b) staying enforcement of all claims x x x."[57]

Compliant with the rules, the July 13, 2004 stay order was issued not later than five (5) days from the filing of the petition on July 9, 2004 after the rehabilitation court found the petition sufficient in form and substance.

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[56] Id. at 23-24.

[57] *See* M. BALGOS, INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION 80 (2006). Atty. Balgos was part of the Supreme Court's Committee tasked specifically to draft the rules of procedure on corporate rehabilitation and intra-corporate controversies.

> When the Committee met and discussed when stay should be issued so that the arrest of enforcement of claims against the distressed debtor may be immediate, it decided that, ***to satisfy the law and the abandonment of the former RCBC decision***, once a petition for rehabilitation is filed, and not later than five (5) days therefrom, upon its finding that it is sufficient in form and substance, it shall "issue an order (a) appointing a Rehabilitation Receiver and fixing his bond, and (b) staying enforcement of all claims, whether for money or otherwise and whether enforcement is by court action or otherwise, against the debtor, its guarantors and sureties not solidarily liable with the debtor. (Emphasis provided)

We agree that when a petition filed by a debtor "alleges all the material facts and includes all the documents required by Rule 4-2 [of the Interim Rules],"[58] it is sufficient in form and substance.

Nowhere in the Interim Rules does it require a comprehensive discussion in the stay order on the court's findings of sufficiency in form and substance.

The stay order and appointment of a rehabilitation receiver dated July 13, 2004 is an "extraordinary, preliminary, *ex parte* remed[y]."[59] The effectivity period of a stay order is only "from the date of its issuance until dismissal of the petition or termination of the rehabilitation proceedings."[60] It is not a final disposition of the case. It is an interlocutory order defined as one that "does not finally dispose of the case, and does not end the Court's task of adjudicating the parties' contentions and determining their rights and liabilities as regards each other, but obviously indicates that other things remain to be done by the Court."[61]

Thus, it is not covered by the requirement under the Constitution that a decision must include a discussion of the facts and laws on which it is based.[62]

Neither does the Interim Rules require a hearing before the issuance of a stay order. What it requires is an initial hearing before it can give due course to[63] or dismiss[64] a petition.

Nevertheless, while the Interim Rules does not require the holding of a hearing before the issuance of a stay order, neither does it prohibit the holding of one. Thus, the trial court has ample discretion to call a hearing when it is not confident that the allegations in the petition are sufficient in form and substance, for so long as this hearing is held within the five (5)-day period from the filing of the petition — the period within which a stay order may issue as provided in the Interim Rules.

One of the important objectives of the Interim Rules is "to promote a speedy disposition of corporate rehabilitation cases[,] x x x apparent from

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58 F. LIM, BENCHBOOK ON CORPORATE REHABILITATION 17 (2004).

59 Id.

60 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 11.

61 *Yu v. Reyes-Carpio*, G.R. No. 189207, June 15, 2011, 652 SCRA 341, 349 [Per J. Velasco, First Division], *citing Philippine Business Bank v. Chua*, G.R. No. 178899, November 15, 2010, 634 SCRA 635, 648 [Per J. Brion, Third Division].

62 Consti., art. VIII, sec. 14. This provides that "No decision shall be rendered by any court without expressing therein clearly and distinctly the facts and the law on which it is based."

63 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 9.

64 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 11.

the strict time frames, the non-adversarial nature of the proceedings, and the prohibition of certain kinds of pleadings."[65] It is in light of this objective that a court with basis to issue a stay order must do so not later than five (5) days from the date the petition was filed.[66]

Moreover, according to the November 17, 2000 memorandum submitted by the Supreme Court Committee on the Interim Rules of Procedure on Corporate Rehabilitation:

> The Proposed Rules remove the concept of the Interim Receiver and replace it with a rehabilitation receiver. This is to justify the **immediate issuance** of the stay order because under Presidential Decree No. 902-A, as amended, the suspension of actions takes effect only upon appointment of the rehabilitation receiver.[67] (Emphasis provided)

Even without this court going into the procedural issues, addressing the substantive merits of the case will yield the same result.

Respondent China Banking Corporation mainly argues the violation of the constitutional proscription against impairment of contractual obligations[68] in that neither the provisions of Pres. Dec. No. 902-A as amended nor the Interim Rules empower commercial courts "to render without force and effect valid contractual stipulations."[69]

The non-impairment clause first appeared in the United States Constitution as a safeguard against the issuance of worthless paper money that disturbed economic stability after the American Revolution.[70] This constitutional provision was designed to promote commercial stability.[71] At its core is "a prohibition of state interference with debtor-creditor relationships."[72]

This clause first became operative in the Philippines through the Philippine Bill of 1902, the fifth paragraph of Section 5 which states "[t]hat no law impairing the obligation of contracts shall be enacted." It was consistently adopted in subsequent Philippine fundamental laws, namely, the

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65 P. V. Santo, *An Assessment of the Application of the Interim Rules of Procedure on Corporate Rehabilitation*, in F. LIM, BENCHBOOK ON CORPORATE REHABILITATION 137 (2004).

66 Id.; INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 6.

67 R. LUCILA, CORPORATE REHABILITATION IN THE PHILIPPINES 246 (2007).

68 Consti., art. III, sec. 10. No law impairing the obligation of contracts shall be passed.

69 *Rollo* (vol. 2), p. 870.

70 *See* J. G. Hervey, *The Impairment of Obligation of Contracts*, in ANNALS OF THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE, vol. 195, 87 (1938).

71 *See Rediscovering the Contract Clause*, in HARVARD LAW REVIEW, vol. 97, no. 6, 1,414 and 1,420 (1984).

72 Id. at 1,421.

Jones Law of 1916,[73] the 1935 Constitution,[74] the 1973 Constitution,[75] and the present Constitution.[76]

Nevertheless, this court has brushed aside invocations of the non-impairment clause to give way to a valid exercise of police power[77] and afford protection to labor.[78]

In *Pacific Wide Realty and Development Corporation v. Puerto Azul Land, Inc.*[79] which similarly involved corporate rehabilitation, this court found no merit in Pacific Wide's invocation of the non-impairment clause, explaining as follows:

> We also find no merit in PWRDC's contention that there is a violation of the impairment clause. Section 10, Article III of the Constitution mandates that no law impairing the obligations of contract shall be passed. This case does not involve a law or an executive issuance declaring the modification of the contract among debtor PALI, its creditors and its accommodation mortgagors. Thus, the non-impairment clause may not be invoked. Furthermore, as held in *Oposa v. Factoran*, *Jr.* even assuming that the same may be invoked, the non-impairment clause must yield to the police power of the State. Property rights and contractual rights are not absolute. The constitutional guaranty of non-impairment of obligations is limited by the exercise of the police power of the State for the common good of the general public.
>
> Successful rehabilitation of a distressed corporation will benefit its debtors, creditors, employees, and the economy in general. The court may approve a rehabilitation plan even over the opposition of creditors holding a majority of the total liabilities of the debtor if, in its judgment, the rehabilitation of the debtor is feasible and the opposition of the creditors is manifestly unreasonable. The rehabilitation plan, once approved, is binding upon the debtor and all persons who may be affected by it, including the creditors, whether or not such persons have participated in the proceedings or have opposed the plan or whether or not their claims have been scheduled.[80]

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73 Sec. 3 (c), August 29, 1916 < http://www.gov.ph/the-philippine-constitutions/the-jones-law-of-1916/>.
74 Consti. (1935), art. III, sec. 1 (10).
75 Consti. (1973), art. IV, sec. 11.
76 Consti., art. III, sec. 10.
77 *See Pacific Wide Realty and Development Corporation v. Puerto Azul Land, Inc.*, G.R. No. 178768 and 180893, November 25, 2009, 605 SCRA 503, 516-517 [Per J. Nachura, Third Division]; *Philippine National Bank v. Remigio*, G.R. No. 78508, March 21, 1994, 231 SCRA 362, 368 [Per J. Vitug, Third Division]; *Kabiling v. National Housing Authority*, 240 Phil. 585, 590 (1987) [Per J. Yap, En Banc]; *Alalayan, et al. v. National Power Corporation*, *et al.*, 133 Phil. 279, 293-294 (1968) [Per J. Fernando, En Banc].
78 *See Abella v. National Labor Relations Commission*, 236 Phil. 150, 157 (1987) [Per J. Paras, En Banc].
79 G.R. No. 178768, November 25, 2009, 605 SCRA 503 [Per J. Nachura, Third Division].
80 Id. at 516-517.

Corporate rehabilitation is one of many statutorily provided remedies for businesses that experience a downturn. Rather than leave the various creditors unprotected, legislation now provides for an orderly procedure of equitably and fairly addressing their concerns. Corporate rehabilitation allows a court-supervised process to rejuvenate a corporation. Its twin, insolvency, provides for a system of liquidation and a procedure of equitably settling various debts owed by an individual or a business. It provides a corporation's owners a sound chance to re-engage the market, hopefully with more vigor and enlightened services, having learned from a painful experience.

Necessarily, a business in the red and about to incur tremendous losses may not be able to pay all its creditors. Rather than leave it to the strongest or most resourceful amongst all of them, the state steps in to equitably distribute the corporation's limited resources.

The cram-down principle adopted by the Interim Rules does, in effect, dilute contracts. When it permits the approval of a rehabilitation plan even over the opposition of creditors,[81] or when it imposes a binding effect of the approved plan on all parties including those who did not participate in the proceedings,[82] the burden of loss is shifted to the creditors to allow the corporation to rehabilitate itself from insolvency.

Rather than let struggling corporations slip and vanish, the better option is to allow commercial courts to come in and apply the process for corporate rehabilitation.

This option is preferred so as to avoid what Garrett Hardin called the Tragedy of Commons. Here, Hardin submits that "coercive government regulation is necessary to prevent the degradation of common-pool resources [since] individual resource appropriators receive the full benefit of their use and bear only a share of their cost."[83] By analogy to the game theory, this is the prisoner's dilemma: "Since no individual has the right to control or exclude others, each appropriator has a very high discount rate [with] little incentive to efficiently manage the resource in order to guarantee future use."[84] Thus, the cure is an exogenous policy to equitably distribute scarce resources. This will incentivize future creditors to continue lending, resulting in something productive rather than resulting in nothing.

In fact, these corporations exist within a market. The General Theory of Second Best holds that "correction for one market imperfection will not necessarily be efficiency-enhancing unless [there is also] simultaneous

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81 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 23.
82 INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION (2000), Rule 4, sec. 24 (a).
83 *See* N. S. Garnett, *Managing the Urban Commons*, 160 U. Pa. L. Rev. 1995, 2,000-2,001 (2012).
84 Id. at 2,001.

[correction] for all other market imperfections."[85] The correction of one market imperfection may adversely affect market efficiency elsewhere, for instance, "a contract rule that corrects for an imperfection in the market for consensual agreements may [at the same time] induce welfare losses elsewhere."[86] This theory is one justification for the passing of corporate rehabilitation laws allowing the suspension of payments so that corporations can get back on their feet.

As in all markets, the environment is never guaranteed. There are always risks. Contracts are indeed sacred as the law between the parties. However, these contracts exist within a society where nothing is risk-free, and the government is constantly being called to attend to the realities of the times.

Corporate rehabilitation is preferred for addressing social costs. Allowing the corporation room to get back on its feet will retain if not increase employment opportunities for the market as a whole. Indirectly, the services offered by the corporation will also benefit the market as "[t]he fundamental impulse that sets and keeps the capitalist engine in motion comes from [the constant entry of] new consumers' goods, the new methods of production or transportation, the new markets, [and] the new forms of industrial organization that capitalist enterprise creates."[87]

As a final note, this is not the first time this court was made to review two separate petitions appealed from two conflicting decisions, rendered by two divisions of the Court of Appeals, and originating from the same case. In *Serrano v. Ambassador Hotel, Inc.*,[88] we ordered the Court of Appeals to adopt immediately a more efficient system in its Internal Rules to avoid situations as this.

In this instance, it is fortunate that this court had the opportunity to correct the situation and prevent conflicting judgments from reaching impending finality with the referral to the En Banc.

We reiterate the need for our courts to be "constantly vigilant in extending their judicial gaze to cases related to the matters submitted for their resolution"[89] as to "ensure against judicial confusion and [any] seeming conflict in the judiciary's decisions."[90]

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85 *See* T. S. Ulen, *Courts, Legislatures, and the General Theory of Second Best in Law and Economics*, 73 Chi.-Kent L. Rev. 189, 220 (1998).

86 Id.

87 *See* T. K. McCraw, *Classics: Joseph Schumpeter on Competition*, 8 Competition Pol'y Int'l. 194, 201 (2012).

88 G.R. No. 197003, February 11, 2013, 690 SCRA 226 [Per J. Velasco, Third Division].

89 Id. at 238.

90 Id.

WHEREFORE, petitioner Pryce Corporation's motion is **GRANTED**. This court's February 4, 2008 decision is **RECONSIDERED** and **SET ASIDE**.

SO ORDERED.

MARVIC MARIO VICTOR F. LEONEN
Associate Justice

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice

ANTONIO T. CARPIO
Associate Justice

PRESBITERO J. VELASCO, JR.
Associate Justice

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

(On Leave)
ARTURO D. BRION
Associate Justice

DIOSDADO M. PERALTA
Associate Justice

LUCAS P. BERSAMIN
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

ROBERTO A. ABAD
Associate Justice

MARTIN S. VILLARAMA, JR.
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

BIENVENIDO L. REYES
Associate Justice

No Part

ESTELA M. PERLAS-BERNABE
Associate Justice

CERTIFICATION

I certify that the conclusions in the above Resolution had been reached in consultation before the case was assigned to the writer of the opinion of the court.

MARIA LOURDES P. A. SERENO
Chief Justice