Republic of the Philippines
Department of Finance
Securities and Exchange Commission
COMMISSION EN BANC

IN THE MATTER OF THE PETITION FOR DECLARATION OF A STATE OF SUSPENSION OF PAYMENT; FOR THE APPROVAL OF A REHABILITATION PLAN; AND THE APPOINTMENT OF A MANAGEMENT COMMITTEE

VICTORIAS MILLING COMPANY, INC.,
Petitioner-Appellant,

- versus –

SEC En Banc Case No. 03-14-324
Promulgated: 02 March 2023

THE SEC SPECIAL HEARING PANEL I AND MALAYAN INSURANCE COMPANY, INC.,
Respondents-Appellees.

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DECISION

Before this Commission is the Petition for Review on Certiorari (Re: Order dated March 13, 2014 issued by the Securities and Exchange Commission Special Hearing Panel 1) [the "Petition for Review"] filed by Petitioner- Appellant Victorias Milling Company, Inc. (VMC) on 31 March 2014, assailing the Order dated March 13, 2014 (the "Assailed Order") issued by the Special Hearing Panel 1 (SHP), the dispositive portion of which reads:

> "**WHEREFORE**, premises considered, the Motion for Leave to File Notice of Claim for Reimbursement of Surety Bond with Notice of Claim filed by Malayan Insurance Company, Inc. (MICO) is **GRANTED**. The Rehabilitation Receiver, Atty. Luis Ma. G. Uranza is directed to include MICO's claim amounting to P6,605,275.24 plus legal interests and charges from May 18, 2001 in the Schedule of Debts and Liabilities of VMC."

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THE RELEVANT FACTS

The factual circumstances attendant in the instant case is undisputed.

On 4 July 1997, VMC filed with the Commission a Petition for the Declaration of Suspension of Payment; the Approval of a Rehabilitation Plan; and the Appointment of Management Committee which was docketed as SEC Case No. 07-97-5693 (the "Petition").[1]

In an Order dated 8 July 1997, the Commission granted the Petition where VMC was declared to be under a state of suspension of payments; and issued a Stay Order dated 7 July 1998 in its favor.[2]

On 31 May 1999, during the pendency of the rehabilitation proceedings, Executive Labor Arbiter Oscar Uy (ELA Uy) of the Regional Arbitration Branch No. IV of the National Labor Relations Commission (NLRC) rendered a Decision dated 31 May 1999 (the "RAB Decision") in the case entitled "Dominador P. Abelido, Jr. v. Victorias Milling Company, Inc."[3], directing VMC to pay Dominador P. Abelido, Jr. (Mr. Abelido) the amount of Pesos: Six Million Six Hundred Five Thousand Two Hundred Seventy-Five & 24/100 (PhP6,605,275.24) plus interest at the rate of 6% per annum from the finality of the decision until fully paid.[4]

VMC elevated the RAB Decision to the NLRC – Cebu City (NLRC Cebu) *via* a Memorandum of Appeal where it posted Surety Bond No. 070117 covering the amount of PhP6,605,275.24 that was issued by Malayan Insurance Company, Inc. (MICO).[5]

In its Decision dated 7 September 2000, the NLRC Cebu dismissed VMC's Memorandum of Appeal for lack of merit. The Motion for Reconsideration which VMC subsequently filed was likewise denied by the NLRC Cebu in its Resolution dated 31 January 2001.[6]

VMC forthwith filed a Petition for Certiorari before the Court of Appeals (CA) which was docketed as CA-G.R. SP No. 64467. During the pendency of the action with the CA, ELA Uy issued a Writ of Execution dated 4 April 2001 (the "Writ") and Notices of Garnishment dated 4 and

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[1] *Petition for Review on Certiorari.* Par. 3.1
[2] *Ibid.* Par. 3.2
[3] Docketed as RAB Case No. 06-08-10553-98
[4] *Ibid.* Par. 3.3. See also Annex "H" (*Motion for Leave to File Notice of Claim for Reimbursement of Surety Bond.* Par. 2)
[5] *Ibid.* Par. 3.4. See also *Order dated 13 March 2014.* Page 2
[6] *Ibid.* Pars 3.5 and 3.6

18 April 2001 on the strength of the Entry of Judgment dated 29 March 2001.[7] ELA Uy subsequently directed MICO to turn over the amount covered by the Surety Bond to satisfy the Writ, which the latter complied with.

On 5 June 2003, the CA rendered a Decision granting the Petition for Certiorari, the dispositive portion of which reads:

> "WHEREFORE, based on the foregoing premises, this Court rules as follows:
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> 1. The assailed September 7, 2000 Decision of the NLRC is AFFIRMED;
> 2. The January 31, 2001 Resolution denying VMC's motion for reconsideration is SET ASIDE;
> 3. The case is REMANDED to the NLRC for suspension on the proceedings with respect to VMC's motion for reconsideration;
> 4. Private respondent is directed to bring his claim before the petitioner's management committee; and
> 5. This petition is deemed CLOSED AND TERMINATED."

Acting on the Partial Motion for Reconsideration filed by VMC, the CA issued a Resolution dated 31 July 2006, deleting item number 1 of the afore-quoted portion of its Decision.[8]

MICO subsequently filed with the Regional Trial Court of Manila (RTC-Manila) a Complaint for Sum of Money with Damages against VMC and BPI, after the latter allegedly disregarded/ignored its demands for reimbursement.[9] The RTC-Manila issued an Order on 2 July 2003 where it directed the suspension of the proceedings against VMC.[10] Unsatisfied, MICO elevated the said Order of the RTC-Manila all the way to the Supreme Court (SC) which rendered a Decision dated 17 April 2009 holding that MICO's claim for reimbursement is covered by the Stay Order issued by the Commission. The SC Decision attained finality on 15 December 2009.[11]

On 26 April 2012, MICO filed with the Commission a Motion for Leave with Notice of Claim (the "Motion with Notice"), praying that it be

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[7] *Ibid.* Par. 3.6
[8] *Id.* Par. 3.12
[9] *Id.* Annex "H" (*Motion for Leave to File Notice of Claim for Reimbursement of Surety Bond.* Par. 4)
[10] *Id.* Pars. 3.14 and 3.15
[11] *Id.* Pars. 3.16 and 3.17. See also Annex "H" (*Motion for Leave to File Notice of Claim for Reimbursement of Surety Bond.* Par. 5)

granted leave to file its Notice of Claim for reimbursement of the sum of PhP6,605,275.24, plus legal interest and other charges thereon from 18 May 2001 pursuant to the Indemnity Agreement and Deed of Assignment.[12]

On 25 May 2012, VMC filed its Opposition to the Motion for Leave to File Notice of Claim for Reimbursement of Surety Bond Payment, therein praying for its denial on the ground of forum shopping and for alleged want of merit. In his Comment dated 10 June 2012, the Rehabilitation Receiver, Atty. Jose Ma. Aranza, similarly prayed for the denial of the Motion with Notice for lack of merit.[13]

On 3 July 2012, MICO filed its Consolidated Reply where it refuted the arguments presented by VMC and the Rehabilitation Receiver, and prayed for the denial of their Opposition and Comment, respectively.

In compliance with the Order dated 25 March 2013, VMC, the Rehabilitation Receiver, and MICO filed their respective Position Papers where they basically reiterated the allegations and arguments which they presented in their earlier pleadings.

On 13 March 2014, the SHP 1 issued the Assailed Order which resulted in the filing of the instant Petition. for Review

On 2 May 2014, MICO filed its Answer (to the Petition for Review of Certiorari dated 28 March 2014), praying for (a) the denial of VMC's application for issuance of restraining order and/or writ of preliminary injunction; (b) the denial of the Petition; and (c) the affirmation of the Assailed Order. MICO therein presented arguments that supported and supplemented the findings of the SHP 1 in the Assailed Order.

On 6 June 2014, VMC filed its Reply (To Answer dated April 30, 2014 filed by Respondent Malayan Insurance Company, Inc.) which basically reiterated the arguments in the Petition for Review. VMC emphasized the failure of MICO to refute its argument that the SHP 1 committed grave abuse of discretion amounting to lack or excess of jurisdiction.

In its Manifestation dated 6 September 2022, MICO reiterated its position that the SHP 1 did not commit any grave abuse of discretion in allowing the recordal of its Notice of Claim, and in directing the

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[12] *Id.* Par. 3.18
[13] *Id.* Annex "J"

Rehabilitation Receiver to include its claim in the Schedule of Debts and Liabilities of VMC.

On 14 September 2022, VMC filed its Manifestation informing the Commission that as of said date, it has not received any new submission from MICO after it filed its Reply to the latter's Answer.

ISSUE

Whether or not the SHP 1 committed grave abuse of discretion in granting the Motion with Notice, and directing the Rehabilitation Receiver to include MICO's claim in the Schedule of Debts and Liabilities of VMC.

RULING

We reverse the SHP 1.

In the Assailed Order, the SPH 1 directed the Rehabilitation Receiver to include MICO's claim in the Schedule of Debts and Liabilities of VMC on the basis of its finding that (a) the same is not premature in the sense that a ruling thereon will not involve a determination of the factual and legal issues in the civil case, and (b) the same is valid and enforceable against VMC. The effect of such directive, if carried out by the Rehabilitation Receiver, is to amend the Schedule of Debts and Liabilities and the Rehabilitation Plan which were previously approved and are currently being implemented.

In relation to the Schedule of Debts and Liabilities, Section 12(b) and (c) of A.M. No. 00-8-10-SC[14] otherwise known as the Rules of Procedure on Corporate Rehabilitation (the "Rules"), which is the regulation in effect when the Motion and Notice was filed, provides:

> "**Section 12.** *Powers and Functions of Rehabilitation Receiver.* - The rehabilitation receiver shall not take over the management and control of the debtor but shall closely oversee and monitor the operations of the debtor during the pendency of the proceedings. For this purpose, the rehabilitation receiver shall have the powers, duties and functions of a receiver under Presidential Decree No. 902-A, as amended, and the Rules of Court.

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[14] December 2, 2008

> The rehabilitation receiver shall be considered as an officer of the court. He shall be primarily tasked to study the best way to rehabilitate the debtor and to ensure that the value of the debtor's property is reasonably maintained pending the determination of whether or not the debtor should be rehabilitated, as well as implement the rehabilitation plan after its approval. Accordingly, he **shall** have the following powers and functions:
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> xxx xxx xxx
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> (b) **To accept and incorporate**, when justified, **amendments to the Schedule of Debts and Liabilities**;
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> (c) **To recommend to the court the disallowance of claims and rejection of amendments to the Schedule of Debts and Liabilities** that lack sufficient proof and justification; xxx (Emphasis supplied)

Under the afore-quoted provisions of the Rules, the power and authority to accept and incorporate amendments to the Schedule of Debts and Liabilities are lodged exclusively with the Rehabilitation Receiver, who is equally tasked to recommend to the court (or this Commission as the case may be) the disallowance of claims and rejection of amendments thereto if he finds the same to be bereft of merit. Stated otherwise, the SHP 1 has no authority under the Rules to direct the acceptance/disallowance of a claim or cause the amendment of the Schedule of Debts and Liabilities.

Given the express grant of exclusive authority to the Rehabilitation Receiver to accept and incorporate amendments to the Schedule of Debts and Liabilities, and to recommend to the court (or this Commission as the case may be) the disallowance of claims and rejection of amendments thereto, it follows that the authority of the SHP 1 is necessarily limited to directing the Rehabilitation Receiver to evaluate any claim presented by a creditor and to make the appropriate recommendation.

MICO's reliance on Rule 4 Section 10 of the Interim Rules of Procedure on Corporate Rehabilitation, which was adopted in the Rules, is misplaced as the said provision applies and governs the filing of an opposition to a petition. It has no application to the filing of a claim after the Stay Order has been issued. Granting ex gratia that the provision applies, there is nothing therein that gives the rehabilitation court or the

SHP the authority to accept or deny a claim precisely because such authority is lodged specifically with the rehabilitation receiver.

In the case of *People v. Court of Appeals*[15], the Supreme Court discussed the concept of grave abuse of discretion as follows:

> "Grave abuse of discretion defies exact definition, but it generally refers to capricious or whimsical exercise of judgment as is equivalent to lack of jurisdiction. The abuse of discretion must be patent and gross as to amount to an evasion of a positive duty or a virtual refusal to perform a duty enjoined by law, or to act at all in contemplation of law, as where the power is exercised in an arbitrary and despotic manner by reason of passion and hostility."

We find the Supreme Court justifying the reversal and nullification of a resolution of the CA in *Cunanan v. Court of Appeals*[16], based on the parameters established in the afore-quoted doctrine, thus:

> "A review of the orders of the DAR-R03 and the resolutions of the CA discloses that neither of the two tackled the lament of Cunanan that she was denied her constitutional right to due process because she was never notified of the proceedings and furnished copies of the pleadings. <u>The DAR-R03 and the CA took the shortcut by denying her pleas for justice on the ground of technicalities. Neither of the two stated that she was notified or that she was furnished copies of the pleadings. She was not even furnished a copy of the order cancelling TCT No. 288509 in her name</u>. Doubtless, she was deprived of her property without due process of law.
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> The Court cannot rest easy if such a travesty of justice would be perpetuated and made permanent. It is simply unconscionable.
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> <u>To correct an injustice, all the orders of the DAR-R03 and the resolutions of the CA should be vacated and set aside for being issued with grave abuse of discretion</u>. The DAR-R03 and the CA might have correctly cited pertinent technical rules to justify their actions due to the ignorance or

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[15] G.R. Nos. 205182-83 (Notice), [August 5, 2013]
[16] G.R. No. 205573 (Resolution), [August 17, 2016]

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> negligence of the petitioner's counsel but the bottom line is that Cunanan was deprived of her property in violation of her constitutional right to due process." (Emphasis supplied)

The reason for the imperative nature of observing the provisions of applicable laws, rules, and regulations, which justifies the nullification of decisions made in violation of the same, was explained by the Supreme Court in *Republic v. Sandiganbayan*[17], thus:

> "Every part of our law — whether substantive or procedural — is the outcome of reasonable deliberation. As the outcome of human agency, our laws are to be interpreted and applied with meaning and purpose. The day that our courts cease to breathe life to this fundamental principle is the day that we erode the public's confidence in the ability of the law to render justice."

On the basis thereof, we find that the SHP 1 committed grave abuse of discretion amounting to lack or excess of jurisdiction when it exercised a power that is exclusively lodged in the Rehabilitation Receiver by the Rules. This Commission cannot give its imprimatur to such assumption and exercise of an authority which, by express provision of the Rules, are not for the SHP 1 to discharge. The Assailed Order must therefore be struck down for having been made without authority.

Given the foregoing, the Commission finds it unnecessary to rule on the other issues presented in the Petition which are technical in nature.

WHEREFORE, premises considered, the Petition for Review on Certiorari (Re: Order dated March 13, 2014 issued by the Securities and Exchange Commission Special Hearing Panel 1) is hereby **GRANTED**. The Order dated March 13, 2014 issued by the Special Hearing Panel 1 (SHP) is hereby **REVERSED AND SET ASIDE** for having been made with grave abuse of discretion amounting to lack or excess of jurisdiction.

SO ORDERED.

Makati City, Philippines.

EMILIO B. AQUINO
Chairperson

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[17] G.R. No. 195295, [October 5, 2016], 796 PHIL 617-643

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JAVEY PAUL D. FRANCISCO
Commissioner

KELVIN LESTER K. LEE
Commissioner

KARLO S. BELLO
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MCJILL BRYANT T. FERNANDEZ
Commissioner