Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

BANK OF COMMERCE,
Petitioner,

- versus -

PLANTERS DEVELOPMENT BANK and BANGKO SENTRAL NG PILIPINAS,
Respondents.

X - X

BANGKO SENTRAL NG PILIPINAS,
Petitioner,

- versus -

PLANTERS DEVELOPMENT BANK,
Respondent.

G.R. Nos. 154470-71

G.R. Nos. 154589-90

Present:

CARPIO, *J.*,
Chairperson,
BRION,
BERSAMIN,*
PEREZ, and
PERLAS-BERNABE, *JJ.*

Promulgated:

SEP 24 2012

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DECISION

BRION, *J.*:

Before the Court are two consolidated petitions for review on *certiorari* under Rule 45,[1] on pure questions of law, filed by the petitioners

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* Designated as Additional Member in lieu of Associate Justice Mariano C. del Castillo per Raffle dated September 17, 2012.

[1] Rules of Court.

Bank of Commerce (*BOC*) and the Bangko Sentral ng Pilipinas (*BSP*). They assail the January 10, 2002 and July 23, 2002 Orders (*assailed orders*) of the Regional Trial Court (*RTC*) of Makati City, Branch 143, in Civil Case Nos. 94-3233 and 94-3254. These orders dismissed (i) the petition filed by the Planters Development Bank (*PDB*), (ii) the "counterclaim" filed by the BOC, and (iii) the counter-complaint/cross-claim for interpleader filed by the BSP; and denied the BOC's and the BSP's motions for reconsideration.

THE ANTECEDENTS

The Central Bank bills

I. First set of CB bills

The Rizal Commercial Banking Corporation (*RCBC*) was the registered owner of seven Central Bank (*CB*) bills **with a total face value of ₱70 million,** issued on January 2, 1994 and would mature on January 2, 1995.[2] As evidenced by a "Detached Assignment" dated **April 8, 1994**,[3] **the RCBC sold these CB bills to the BOC**.[4] As evidenced by another "Detached Assignment"[5] of even date, the **BOC, in turn, sold these CB bills to the PDB**.[6] The BOC delivered the Detached Assignments to the PDB.[7]

On **April 15, 1994** *(April 15 transaction)*, the **PDB, in turn, sold to the BOC** Treasury Bills worth ₱70 million, with maturity date of June 29,

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2 Records, Volume II, pp. 565, 571.
3 *Rollo*, G.R. Nos. 154470-71, p. 69.
4 Records, Volume II, pp. 565, 571.
5 *Rollo*, G.R. Nos. 154470-71, p. 68.
6 *Id*. at 55, 68, 193.
7 On April 12, 1994, the PDB sold ₱70 million worth of securities to the BOC. For its failure to deliver the securities, the PDB delivered the CB bills to the BOC as substitute. On even date, the BOC sold the CB bills to Bancapital Development Corporation (*Bancap*). The PDB reacquired the CB bills from Bancap. *Id*. at 193-194.

1994, as evidenced by a Trading Order[8] and a Confirmation of Sale.[9] However, instead of delivering the Treasury Bills, the PDB delivered the seven CB bills to the BOC, as evidenced by a PDB Security Delivery Receipt, bearing a "note: ** substitution in lieu of 06-29-94" – referring to the Treasury Bills.[10] Nevertheless, the PDB retained possession of the Detached Assignments. **It is basically the nature of this April 15 transaction that the PDB and the BOC cannot agree on.**

The transfer of the first set of seven CB bills

i. CB bill nos. 45351-53

On April 20, 1994, according to the BOC, it "sold back"[11] to the PDB three of the seven CB bills. In turn, the PDB transferred these three CB bills to Bancapital Development Corporation (*Bancap*). On April 25, 1994, the BOC bought the three CB bills from Bancap – so, ultimately, the BOC reacquired these three CB bills,[12] particularly described as follows:

Serial No.:	2BB XM 045351 2BB XM 045352 2BB XM 045353
Quantity:	Three (3)
Denomination:	Php 10 million
Total Face Value:	Php 30 million

8 *Id*. at 111.
9 *Id*. at 112.
10 *Id*. at 100-101, 113.
11 *Id*. at 194.
12 *Id*. at 127.

ii. CB bill nos. 45347-50

On April 20, 1994, the BOC sold the remaining four (4) CB bills to Capital One Equities Corporation[13] which transferred them to All-Asia Capital and Trust Corporation (*All Asia*). On September 30, 1994, All Asia further transferred the four CB bills back to the RCBC.[14]

On November 16, 1994, the RCBC sold back to All Asia one of these 4 CB bills. When the BSP refused to release the amount of this CB bill on maturity, the BOC purchased from All Asia this lone CB bill,[15] particularly described as follows:[16]

Serial No.:	2BB XM 045348
Quantity:	One (1)
Denomination:	Php 10 million
Total Face Value:	Php 10 million

As the registered owner of the remaining three CB bills, the RCBC sold them to IVI Capital and Insular Savings Bank. Again, when the BSP refused to release the amount of this CB bill on maturity, the RCBC paid back its transferees, reacquired these three CB bills and sold them to the BOC – ultimately, the BOC acquired these three CB bills.

All in all, the BOC acquired the first set of seven CB bills.

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13 *Id*. at 101, 195.
14 *Ibid*.; Records, Volume II, p. 566.
15 *Rollo*, G.R. Nos. 154470-71, p. 196.
16 Records, Volume I, pp. 193-194.

II. Second set of CB bills

On April 19, 1994, the RCBC, as registered owner, (i) sold two CB bills with a total face value of ₱20 million to the PDB and (ii) delivered to the PDB the corresponding Detached Assignment.[17] The two CB bills were particularly described as follows:

Serial No.:	BB XM 045373 BB XM 045374
Issue date:	January 3, 1994
Maturity date:	January 2, 1995
Denomination:	Php 10 million
Total Face value:	Php 20 million

On even date, the PDB delivered to Bancap the two CB bills[18] (*April 19 transaction*). In turn, Bancap sold the CB bills to Al-Amanah Islamic Investment Bank of the Philippines, which in turn sold it to the BOC.[19]

PDB's move against the transfer of the first and second sets of CB bills

On June 30, 1994, upon learning of the transfers involving the CB bills, the PDB informed[20] the Officer-in-Charge of the BSP's Government Securities Department,[21] Lagrimas Nuqui, of the PDB's claim over these CB bills, based on the Detached Assignments in its possession. The PDB requested the BSP[22] to record its claim in the BSP's books, explaining that

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17 *Rollo*, G.R. Nos. 154470-71, p. 80; Records, Volume II, p. 552.

18 As evidenced by a Security Delivery Receipt issued by the PDB and acknowledged by Bancap; *rollo*, G.R. Nos. 154589-90, p. 83.

19 *Rollo*, G.R. Nos. 154470-71, pp. 81, 191.

20 Through two separate letters dated June 30, 1994 of the PDB's Executive Vice President, Rodolfo V. Timbol. *Id*. at 74; *rollo*, G.R. Nos. 154589-90, pp. 37, 38.

21 Now defunct.

22 R.A. No. 7653 abolished the Central Bank and created a new corporate entity known as the BSP.

its non-possession of the CB bills is "on account of imperfect negotiations thereof and/or subsequent setoff or transfer."[23]

Nuqui denied the request, invoking Section 8 of CB Circular No. 28 (*Regulations Governing Open Market Operations, Stabilization of the Securities Market, Issue, Servicing and Redemption of the Public Debt*)[24] which requires the presentation of the bond before a registered bond may be transferred on the books of the BSP.[25]

In a July 25, 1994 letter, the PDB clarified to Nuqui that it was not "asking for the transfer of the CB Bills…. [rather] it [intends] to put the [BSP] on formal notice that whoever is in possession of said bills is not a holder in due course," and, therefore the BSP should not make payment upon the presentation of the CB bills on maturity.[26] Nuqui responded that the BSP was "not in a position at [that] point in time to determine who is and who is not the holder in due course [since it] is not privy to all acts and time involving the transfers or negotiation" of the CB bills. Nuqui added that the BSP's action shall be governed by CB Circular No. 28, as amended.[27]

On November 17, 1994, the PDB also asked BSP Deputy Governor Edgardo Zialcita that (i) a notation in the BSP's books be made against the

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23 *Rollo*, G.R. Nos. 154470-71, pp. 90, 115.

24 Section 8 of CB Circular No. 28 reads:

> A registered bond may be transferred on the books of the Central Bank into the name of another person upon presentation of the bond properly assigned in accordance with the regulations governing assignments. Specific instructions for the issue and delivery of the registered bonds to be issued upon transfer must accompany the bonds presented. (Use Securities Form No. 14) Assignment for transfer should be made to the transferee, or if desired, to the Central Bank of the Philippines for transfer into the name of the transferee, who should be named in the assignment. Assignment in blank will also be accepted for the purpose of transfer, if accompanied by the necessary instructions for the issue of the new bonds.

25 Dated July 4, 1994. *Rollo*, G.R. Nos. 154470-71, pp. 116-117.

26 Records, Volume 1, p. 71.

transfer, exchange, or payment of the bonds and the payment of interest thereon; and (ii) the presenter of the bonds upon maturity be required to submit proof as a holder in due course (of the first set of CB bills). The PDB relied on Section 10 (d) 4 of CB Circular No. 28.[28] This provision reads:

> (4) Assignments effected by fraud – Where the assignment of a registered bond is secured by fraudulent representations, the Central Bank can grant no relief if the assignment has been honored without notice of fraud. Otherwise, the Central Bank, **upon receipt of notice that the assignment is claimed to have been secured by fraudulent representations, or payment of the bond the payment of interest thereon, and when the bond is presented, will call upon the owner and the person presenting the bond to substantiate their respective claims**. If it then appears that the person presenting the bond stands in the position of bonafide holder for value, the Central Bank, after giving the owner an opportunity to assert his claim, will pass the bond for transfer, exchange or payments, as the case may be, without further question.

In a December 29, 1994 letter, Nuqui again denied the request, reiterating the BSP's previous stand.

In light of these BSP responses and the impending maturity of the CB bills, the PDB filed[29] with the RTC two separate petitions for *Mandamus*, Prohibition and Injunction with prayer for Preliminary Injunction and Temporary Restraining Order, docketed as Civil Case No. 94-3233 (covering the first set of CB bills) and Civil Case 94-3254 (covering the second set of CB bills) against Nuqui, the BSP and the RCBC.[30]

The PDB essentially claims that in both the April 15 transaction (involving the first set of CB bills) and the April 19 transaction (involving the second set of CB bills), there was no intent on its part to transfer title of

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[27] *Id*. at 72.

[28] *Rollo*, G.R. Nos. 154470-71, pp. 118-119. The provision erroneously cited Section 10 (d) 3, instead of Section 10 (d) 4.

[29] The first petition, docketed as Civil Case No. 94-3233 was filed on December 23, 1994 (*id*. at 344), while the second petition, docketed as Civil Case No. 94-3254 was filed on December 29, 1994 (*id*. at 345).

[30] *Id*. at 54, 79.

the CB bills, as shown by its non-issuance of a detached assignment in favor of the BOC and Bancap, respectively. The PDB particularly alleges that it merely "warehoused"[31] the first set of CB bills with the BOC, as security collateral.

On December 28, 1994, the RTC temporarily enjoined Nuqui and the BSP from paying the face value of the CB bills on maturity.[32] On January 10, 1995, the PDB filed an Amended Petition, additionally impleading the BOC and All Asia.[33] In a January 13, 1995 Order, the cases were consolidated.[34] On January 17, 1995, the RTC granted the PDB's application for a writ of preliminary prohibitory injunction.[35] In both petitions, the PDB identically prayed:

> WHEREFORE, it is respectfully prayed x x x that, after due notice and hearing, the Writs of Mandamus, Prohibition and Injunction, be issued; (i) commanding the [BSP] and [Nuqui], or whoever may take her place -
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> (a) to record forthwith in the books of BSP the claim of x x x PDB on the [two sets of] CB Bills in accordance with Section 10 (d) (4) of revised C.B. Circular No. 28; and
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> (b) also pursuant thereto, when the bills are presented on maturity date for payment, to call (i) x x x PDB[,] (ii) x x x RCBC x x x, (iii) x x x BOC x x x, and (iv) x x x ALL-ASIA x x x; or whoever will present the [first and second sets of] CB Bills for payment, to submit proof as to who stands as the holder in due course of said bills, and, thereafter, act accordingly;
>
> and (ii) [ordering the BSP and Nuqui] to pay jointly and severally to x x x PDB the following:
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> (a) the sum of ₱100,000.00, as and for exemplary damages;
>
> (b) the sum of at least ₱500,000.00, or such amount as shall be proved at the trial, as and for attorney's fees;

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31 *Id*. at 100.
32 Records, Volume I, p. 53.
33 *Rollo*, G.R. Nos. 154470-71, pp. 97-108.
34 *Id*. at 96.
35 Records, Volume I, pp. 243-246.

(c) the legal rate of interest from the filing of this Petition until full payment of the sums mentioned in this Petition; and

(d) the costs of suit.[36]

After the petitions were filed, the BOC acquired/reacquired all the nine CB bills – the first and second sets of CB bills (*collectively, subject CB bills*).

Defenses of the BSP and of the BOC[37]

The BOC filed its Answer, praying for the dismissal of the petition. It argued that the PDB has no cause of action against it since the PDB is no longer the owner of the CB bills. Contrary to the PDB's "warehousing theory,"[38] the BOC asserted that the (i) April 15 transaction and the (ii) April 19 transaction – covering both sets of CB bills - were valid contracts of sale, followed by a transfer of title (i) to the BOC (in the April 15 transaction) upon the PDB's delivery of the 1st set of CB bills *in substitution* of the Treasury Bills the PDB originally intended to sell, and (ii) to Bancap (in the April 19 transaction) upon the PDB's delivery of the 2nd set of CB bills to Bancap, likewise by way of substitution.

The BOC adds that Section 10 (d) 4 of CB Circular No. 28 cannot apply to the PDB's case because (i) the PDB is not in possession of the CB bills and (ii) the BOC acquired these bills from the PDB, as to the 1st set of CB bills, and from Bancap, as to the 2nd set of CB bills, in good faith and for value. The BOC also asserted a compulsory counterclaim for damages and attorney's fees.

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36 *Rollo*, G.R. Nos. 154470-71, pp. 106-107.

37 The RCBC and All Asia filed their respective Answers, both seeking the dismissal of the PDB's petition, among others. (Records, Volume II, pp. 551-585).

38 *Rollo*, G.R. Nos. 154470-71, p. 131.

On the other hand, the BSP countered that the PDB cannot invoke Section 10 (d) 4 of CB Circular No. 28 because this section applies only to an "owner" and a "person presenting the bond," of which the PDB is neither. The PDB has not presented to the BSP any assignment of the subject CB bills, duly recorded in the BSP's books, in its favor to clothe it with the status of an "owner."[39] According to the BSP –

> Section 10 d. (4) applies only to a registered bond which is assigned. And the issuance of CB Bills x x x are required to be recorded/registered in BSP's books. In this regard, Section 4 a. (1) of CB Circular 28 provides that registered bonds "may be transferred only by an assignment thereon duly executed by the registered owner or his duly authorized representative x x x and duly recorded on the books of the Central Bank."
>
> x x x x
>
> The alleged assignment of subject CB Bills in PDB's favor is not recorded/registered in BSP's books.[40] (underscoring supplied)

Consequently, when Nuqui and the BSP refused the PDB's request (to record its claim), they were merely performing their duties in accordance with CB Circular No. 28.

Alternatively, the BSP asked that an interpleader suit be allowed between and among the claimants to the subject CB bills on the position that while it is able and willing to pay the subject CB bills' face value, it is duty bound to ensure that payment is made to the rightful owner. The BSP prayed that judgment be rendered:

> a. Ordering the dismissal of the [PDB's petition] for lack of merit;

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39 *Id*. at 142, 145.
40 *Id*. at 144-145.

> b. Determining which between/among [PDB] and the other claimants is/are lawfully entitled to the ownership of the subject CB bills and the proceeds thereof;
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> c. x x x;
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> d. Ordering PDB to pay BSP and Nuqui such actual/compensatory and exemplary damages… as [the RTC] may deem warranted; and
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> e. Ordering PDB to pay Nuqui moral damages… and to pay the costs of the suit.[41]

Subsequent events

The PDB agreed with the BSP's alternative response for an interpleader –

> 4. PDB agrees that the various claimants should now interplead and substantiate their respective claims on the subject CB bills. However, the total face value of the subject CB bills should be deposited in escrow with a private bank to be disposed of only upon order [of the RTC].[42]

Accordingly, on June 9, 1995[43] and August 4, 1995,[44] the BOC and the PDB entered into two separate Escrow Agreements.[45] The first agreement covered the first set of CB bills, while the second agreement covered the second set of CB bills. The parties agreed to jointly collect from the BSP the maturity proceeds of these CB bills and to deposit said amount in escrow,

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41 *Id*. at 150.

42 *Id*. at 184. The PDB maintained this position in its Pre-Trial Brief (Records, Volume 4, p. 1004). While the PDB subsequently doubted the necessity of an interpleader, it reasoned as follows:

> 4.1 The parties are now in the process of threshing out among themselves their respective claims;
>
> 4.2 Pending final determination by [the RTC] or amicable settlement as to who shall eventually be entitled to the maturity proceeds of the subject CB bills, [PDB] and [BOC] have entered into an Escrow Agreement[.] (Records, Volume 4, p. 905.)

43 *Rollo*, G.R. Nos. 154470-71, pp. 156-159.

44 *Id*. at 171-175.

45 Considering that the proceeds of the CB bills do not earn interest while in the BSP's possession upon maturity and thereafter (Records, Volume 4, p. 869).

"pending final determination by Court judgment, or amicable settlement as to who shall be eventually entitled thereto."[46] The BOC and the PDB filed a Joint Motion,[47] submitting these Escrow Agreements for court approval. The RTC gave its approval to the parties' Joint Motion.[48] Accordingly, the BSP released the maturity proceeds of the CB bills by crediting the Demand Deposit Account of the PDB and of the BOC with 50% each of the maturity proceeds of the amount in escrow.[49]

In view of the BOC's acquisition of all the CB bills, All Asia[50] moved to be dropped as a respondent (with the PDB's conformity[51]), which the RTC granted.[52] The RCBC subsequently followed suit. [53]

In light of the developments, on May 4, 1998, the RTC required the parties to manifest their intention regarding the case and to inform the court of any amicable settlement; "otherwise, th[e] case shall be dismissed for lack of interest."[54] Complying with the RTC's order, the BOC moved (i) that the case be set for pre-trial and (ii) for further proceeding to resolve the remaining issues between the BOC and the PDB, particularly on "who has a better right over the subject CB bills."[55] The **PDB joined the BOC in its motion**.[56]

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46 *Rollo*, G.R. Nos. 154470-71, p. 156.
47 *Rollo*, G.R. Nos. 154589-90, pp. 140-142, 150-152.
48 *Id*. at 144, 154. The RTC granted the first Joint Motion to Approve covering the first set of bills excluding that in the possession of All Asia because of All Asia's Opposition, and the PDB and the BOC's Comment thereto (Records, Volume 4, pp. 784-789). However, the BOC and All Asia subsequently executed an Agreement wherein, essentially, the BOC would indemnify All Asia. On joint motion of the BOC and All Asia, the CB bill in All Asia's possession was likewise included in escrow.
49 Records, Volume 4, pp. 884-885, 921-922.
50 *Id*. at 959, 961-962.
51 *Id*. at 967, 971.
52 *Rollo*, G.R. Nos. 154470-71, p. 349.
53 Records, Volume 4, pp. 976, 980. Nuqui was also dropped as a defendant without objection from PDB (*id*. at 1022-1023).
54 *Id*. at 972.
55 *Id*. at 973.
56 *Id*. at 984.

On September 28, 2000, the RTC granted the BSP's motion to interplead and, accordingly, required the BOC to amend its Answer and for the conflicting claimants to comment thereon.[57] In October 2000, the BOC filed its *Amended Consolidated Answer with Compulsory Counterclaim*, reiterating its earlier arguments asserting ownership over the subject CB bills.[58]

In the alternative, the BOC added that even assuming that there was no effective transfer of the nine CB bills ultimately to the BOC, the PDB remains obligated to deliver to the BOC, as buyer in the April 15 transaction and ultimate successor-in-interest of the buyer (Bancap) in the April 19 transaction, either the original subjects of the sales or the value thereof, plus whatever income that may have been earned during the pendency of the case.[59]

That BOC prayed:

> 1. To declare BOC as the rightful owner of the nine (9) CB bills and as the party entitled to the proceeds thereof as well as all income earned pursuant to the two (2) Escrow Agreements entered into by BOC and PDB.
>
> 2. In the alternative, ordering PDB to deliver the original subject of the sales transactions or the value thereof and whatever income earned by way of interest at prevailing rate.

Without any opposition or objection from the PDB, on February 23, 2001, the RTC admitted[60] the BOC's *Amended Consolidated Answer with Compulsory Counterclaims*.

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57 *Rollo*, G.R. Nos. 154470-71, p. 181.

58 *Amended Consolidated Answer with Compulsory Counterclaims; id*. at 187-207. The BOC reiterated that it had already acquired whatever rights the other claimants had over the two sets of CB bills; *id*. at 16, 187, 204.

59 *Id*. at 205.

In May 2001, the PDB filed an Omnibus Motion,[61] questioning the RTC's jurisdiction over the BOC's "additional counterclaims." The PDB argues that its petitions pray for the BSP (not the RTC) to determine who among the conflicting claimants to the CB bills stands in the position of the *bona fide* holder for value. The RTC cannot entertain the BOC's counterclaim, regardless of its nature, because it is the BSP which has jurisdiction to determine who is entitled to receive the proceeds of the CB bills.

The BOC opposed[62] the PDB's Omnibus Motion. The PDB filed its Reply.[63]

In a January 10, 2002 Order, the RTC dismissed the PDB's petition, the BOC's counterclaim and the BSP's counter-complaint/cross-claim for interpleader, holding that under CB Circular No. 28, it has no jurisdiction (i) over the BOC's "counterclaims" and (ii) to resolve the issue of ownership of the CB bills.[64] With the denial of their separate motions for reconsideration,[65] the BOC and the BSP separately filed the present petitions for review on *certiorari*.[66]

THE BOC'S and THE BSP'S PETITIONS

The BOC argues that the present cases do not fall within the limited provision of Section 10 (d) 4 of CB Circular No. 28, which contemplates

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60 *Id*. at 239; records, Volume 4, p. 1151.
61 *Rollo*, G.R. Nos. 154589-90, pp. 207- 216.
62 *Id*. at 250-261.
63 *Id*. at 272-273.
64 *Id*. at 50-52.
65 *Id*. at 287-300. The BSP adopted the BOC's arguments in its motion for reconsideration.
66 In a Resolution dated November 20, 2002, these two cases were consolidated on motion of BOC; *id*. at 224, 333.

only of three situations: *first,* where the fraudulent assignment is not coupled with a notice to the BSP, it can grant no relief; *second,* where the fraudulent assignment is coupled with a notice of fraud to the BSP, it will make a notation against the assignment and require the *owner* and the *holder* to substantiate their claims; and *third*, where the case does not fall on either of the first two situations, the BSP will have to await action on the assignment pending settlement of the case, whether by agreement or by court order.

The PDB's case cannot fall under the first two situations. With particular regard to the second situation, CB Circular No. 28 requires that the conflict must be between an "owner" and a "holder," for the BSP to exercise its limited jurisdiction to resolve conflicting claims; and the word "owner" here refers to the registered owner giving notice of the fraud to the BSP. The PDB, however, is not the registered owner nor is it in possession (holder) of the CB bills.[67] Consequently, the PDB's case can only falls under the third situation which leaves the RTC, as a court of general jurisdiction, with the authority to resolve the issue of ownership of a registered bond (the CB bills) not falling in either of the first two situations.

The BOC asserts that the policy consideration supportive of its interpretation of CB Circular No. 28 is to have a reliable system to protect the registered owner; should he file a notice with the BSP about a fraudulent assignment of certain CB bills, the BSP simply has to look at its books to determine who is the owner of the CB bills fraudulently assigned. Since it is only the registered owner who complied with the BSP's requirement of recording an assignment in the BSP's books, then "the protective mantle of administrative proceedings" should necessarily benefit him only, without

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67 *Id*. at 21-22.

extending the same benefit to those who chose to ignore the Circular's requirement, like the PDB.[68]

Assuming *arguendo* that the PDB's case falls under the second situation – *i.e*., the BSP has jurisdiction to resolve the issue of ownership of the CB bills – the more recent CB Circular No. 769-80 (*Rules and Regulations Governing Central Bank Certificates of Indebtedness*) already superseded CB Circular No. 28, and, in particular, effectively amended Section 10 (d) 4 of CB Circular No. 28. The pertinent provisions of CB Circular No. 769-80 read:

> Assignment Affected by Fraud. – Any assignment for transfer of ownership of registered certificate obtained through fraudulent representation if honored by the Central Bank or any of its authorized service agencies shall not make the Central Bank or agency liable therefore unless it has previous formal notice of the fraud. The Central Bank, upon notice under oath that the assignment was secured through fraudulent means, shall immediately issue and circularize a "stop order" against the transfer, exchange, redemption of the Certificate including the payment of interest coupons. The Central Bank or service agency concerned shall continue to withhold action on the certificate until such time that the conflicting claims have been finally settled either by amicable settlement between the parties or by order of the Court.

Unlike CB Circular No. 28, CB Circular No. 769-80 limited the BSP's authority to the mere issuance and circularization of a "stop order" against the transfer, exchange and redemption upon sworn notice of a fraudulent assignment. Under this Circular, the BSP shall only continue to withhold action until the dispute is ended by an amicable settlement or by judicial determination. Given the more passive stance of the BSP – the very agency tasked to enforce the circulars involved - under CB Circular No. 769-80, the RTC's dismissal of the BOC's counterclaims is palpably erroneous.

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68 *Rollo*, G.R. Nos. 154470-71, pp. 407-408.

Lastly, since Nuqui's office (Government Securities Department) had already been abolished,[69] it can no longer adjudicate the dispute under the second situation covered by CB Circular No. 28. The abolition of Nuqui's office is not only consistent with the BSP's Charter but, more importantly, with CB Circular No. 769-80, which removed the BSP's adjudicative authority over fraudulent assignments.

THE PDB'S COMMENT

The PDB claims that jurisdiction is determined by the allegations in the complaint/petition and not by the defenses set up in the answer.[70] In filing the petition with the RTC, the PDB merely seeks to compel the BSP to determine, pursuant to CB Circular No. 28, the party legally entitled to the proceeds of the subject CB bills, which, as the PDB alleged, have been transferred through fraudulent representations – an allegation which properly recognized the BSP's jurisdiction to resolve conflicting claims of ownership over the CB bills.

The PDB adds that under the doctrine of primary jurisdiction, courts should refrain from determining a controversy involving a question whose resolution demands the exercise of sound administrative discretion. In the present case, the BSP's special knowledge and experience in resolving disputes on securities, whose assignment and trading are governed by the BSP's rules, should be upheld.

The PDB counters that the BOC's tri-fold interpretation of Section 10 (d) 4 of CB Circular No. 28 sanctions split jurisdiction which is not favored;

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69 Pursuant to Section 129 of Republic Act (*RA*) No. 7653 (the New Central Bank Act).

70 *Rollo*, G.R. Nos. 154470-71, p. 353, citing *Alemar's (Sibal & Sons), Inc. v. Court of Appeals*, 403 Phil. 236 (2001).

but even this tri-fold interpretation which, in the second situation, limits the meaning of the "owner" to the registered owner is flawed. Section 10 (d) 4 aims to protect not just the registered owner but anyone who has been deprived of his bond by fraudulent representation in order to deter fraud in the secondary trading of government securities.

The PDB asserts that the existence of CB Circular No. 769-80 or the abolition of Nuqui's office does not result in depriving the BSP of its jurisdiction: *first*, CB Circular No. 769-80 expressly provides that CB Circular No. 28 shall have suppletory application to CB Circular No. 769-80; and *second*, the BSP can always designate an office to resolve the PDB's claim over the CB bills.

Lastly, the PDB argues that even assuming that the RTC has jurisdiction to resolve the issue of ownership of the CB bills, the RTC has not acquired jurisdiction over the BOC's so-called "compulsory" counterclaims (which in truth is merely "permissive") because of the BOC's failure to pay the appropriate docket fees. These counterclaims should, therefore, be dismissed and expunged from the record.

THE COURT'S RULING

We grant the petitions.

At the outset, we note that the parties have not raised the validity of either CB Circular No. 28 or CB Circular No. 769-80 as an issue. What the parties largely contest is the applicable circular in case of an allegedly fraudulently assigned CB bill. The applicable circular, in turn, is determinative of the proper remedy available to the PDB and/or the BOC as claimants to the proceeds of the subject CB bills.

Indisputably, at the time the PDB supposedly invoked the jurisdiction of the BSP in 1994 (by requesting for the annotation of its claim over the subject CB bills in the BSP's books), CB Circular No. 769-80 has long been in effect. Therefore, the parties' respective interpretations of the provision of Section 10 (d) 4 of CB Circular No. 28 do not have any significance unless it is first established that that Circular governs the resolution of their conflicting claims of ownership. This conclusion is important, given the supposed repeal or modification of Section 10 (d) 4 of CB Circular No. 28 by the following provisions of CB Circular No. 769-80:

> ARTICLE XI
> SUPPLEMENTAL RULES
>
> Section 1. Central Bank Circular No. 28 – The provisions of Central Bank Circular No. 28 shall have **suppletory application** to matters not specially covered by these Rules.
>
> ARTICLE XII
> EFFECTIVITY
>
> Effectivity – The rules and regulations herein prescribed shall take effect upon approval by the Monetary Board, Central Bank of the Philippines, and **all circulars**, memoranda, or office orders **inconsistent herewith are revoked or modified accordingly**. (Emphases added)

We agree with the PDB that in view of CB Circular No. 28's suppletory application, an attempt to harmonize the apparently conflicting provisions is a prerequisite before one may possibly conclude that an amendment or a repeal exists.[71] Interestingly, however, even the PDB itself failed to submit an interpretation based on its own position of harmonization.

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[71] Ruben E. Agpalo, Statutory Construction, pp. 388, 399, 5th ed., 2003.

The repealing clause of CB Circular No. 769-80 obviously did not *expressly* repeal CB Circular No. 28; in fact, it even provided for the suppletory application of CB Circular No. 28 on "matters not specially covered by" CB Circular No. 769-80. While no express repeal exists, the intent of CB Circular No. 769-80 to operate as an implied repeal,[72] or at least to amend earlier CB circulars, is supported by its text "revok[i]ng]" or "modif[y]ing" "all circulars" which are inconsistent with its terms.

At the outset, we stress that none of the parties disputes that the subject CB bills fall within the category of a certificate or evidence of indebtedness and that these were issued by the Central Bank, now the BSP. Thus, even without resorting to statutory construction aids, matters involving the subject CB bills should necessarily be governed by CB Circular No. 769-80. Even granting, however, that reliance on CB Circular No. 769-80 alone is not enough, we find that CB Circular No. 769-80 impliedly repeals CB Circular No. 28.

An implied repeal transpires when a substantial conflict exists between the new and the prior laws. In the absence of an express repeal, a subsequent law cannot be construed as repealing a prior law unless an irreconcilable inconsistency and repugnancy exist in the terms of the new and the old laws.[73] Repeal by implication is not favored, unless manifestly intended by the legislature, or unless it is convincingly and unambiguously demonstrated, that the laws or orders are clearly repugnant and patently inconsistent with one another so that they cannot co-exist; the legislature is

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[72] *Mecano v. Commission on Audit*, G.R. No. 103982, December 11, 1992, 216 SCRA 500, 505-506; and *Berces, Sr. v. Guingona, Jr.*, 311 Phil. 614, 620 (1995).

[73] *Berces, Sr. v. Guingona, Jr.*, *supra*; and *Social Justice Society (SJS) v. Atienza, Jr.*, G.R. No. 156052, February 13, 2008, 545 SCRA 92, 129-130.

presumed to know the existing law and would express a repeal if one is intended.[74]

There are two instances of implied repeal. One takes place when the provisions in the two acts on the same subject matter are irreconcilably contradictory, in which case, the later act, to the extent of the conflict, constitutes an implied repeal of the earlier one. The other occurs when the later act covers the whole subject of the earlier one and is clearly intended as a substitute; thus, it will operate to repeal the earlier law.[75]

A general reading of the two circulars shows that the second instance of implied repeal is present in this case. CB Circular No. 28, entitled "Regulations Governing Open Market Operations, Stabilization of Securities Market, Issue, Servicing and Redemption of Public Debt," is a regulation governing the servicing and redemption of public debt, including the issue, inscription, registration, transfer, payment and replacement of bonds and securities representing the public debt.[76] On the other hand, CB Circular No. 769-80, entitled "Rules and Regulations Governing Central Bank Certificate of Indebtedness," is the governing regulation on matters[77] (i) involving certificate of indebtedness[78] issued by the Central Bank itself and (ii) which are similarly covered by CB Circular No. 28.

The CB Monetary Board issued CB Circular No. 28 to regulate the servicing and redemption of public debt, pursuant to Section 124 (now

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74 *The United Harbor Pilots' Asso. v. Asso. of Int'l Shipping Lines, Inc.*, 440 Phil. 188, 199 (2002).

75 *Mecano v. Commission on Audit, supra* note 72, at 506.

76 Section 2, CB Circular No. 28.

77 CB Circular No. 769-80 provides the following: Article I (Issue of Central Bank Certificates of Indebtedness); Article II (Bearer and Registered Certificates); Article III (Registration and Inscription of Certificates); Article IV (Exchange of Certificates); Article V (Assignment for Transfer of Certificates); and Article VI (Pledge of Certificates).

78 A certificate or evidence of indebtedness is a written representation of debt securities or obligations of corporations (like the BSP [Section 1, R.A. No. 7653]) such as long term commercial and short term commercial papers (*Securities and Regulations Code Annotated with Implementing Rules and Regulations*, Lucila M. Decasa, 2004, 1st ed., p. 7).

Section 119 of Republic Act [R.A.] No. 7653) of the old Central Bank law[79] which provides that "the servicing and redemption of the public debt shall also be effected through the [Bangko Sentral]." However, even as R.A. No. 7653 continued to recognize this role by the BSP, the law required a phase-out of all fiscal agency functions by the BSP, including Section 119 of R.A. No. 7653.

In other words, even if CB Circular No. 28 applies broadly to both government-issued bonds and securities and Central Bank-issued evidence of indebtedness, given the present state of law, CB Circular No. 28 and CB Circular No. 769-80 now operate on the same subject – Central Bank-issued evidence of indebtedness. Under Section 1, Article XI of CB Circular No. 769-80, the continued relevance and application of CB Circular No. 28 would depend on the need to supplement any deficiency or silence in CB Circular No. 769-80 on a particular matter.

In the present case, both CB Circular No. 28 and CB Circular No. 769-80 provide the BSP with a course of action in case of an allegedly fraudulently assigned certificate of indebtedness. Under CB Circular No. 28, in case of fraudulent assignments, the BSP would have to "call upon the owner and the person presenting the bond to substantiate their respective claims" and, from there, determine who has a better right over the registered bond. On the other hand, under CB Circular No. 769-80, the BSP shall merely "issue and circularize a 'stop order' against the transfer, exchange, redemption of the [registered] certificate" *without any adjudicative function* (which is the precise root of the present controversy). As the two circulars stand, the patent irreconcilability of these two provisions does not require

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[79] Section 124. Servicing and redemption of the public debt. - The servicing and redemption of the public debt shall also be effected through the Central Bank.

elaboration. Section 5, Article V of CB Circular No. 769-80 inescapably repealed Section 10 (d) 4 of CB Circular No. 28.

The issue of BSP's jurisdiction, lay hidden

On that note, the Court could have written *finis* to the present controversy by simply sustaining the BSP's hands-off approach to the PDB's problem under CB Circular No. 769-80. However, the jurisdictional provision of CB Circular No. 769-80 itself, in relation to CB Circular No. 28, on the matter of fraudulent assignment, has given rise to a question of jurisdiction - the ***core*** question of law involved in these petitions - which the Court cannot just treat *sub-silencio*.

Broadly speaking, jurisdiction is the legal power or authority to hear and determine a cause.[80] In the exercise of judicial or quasi-judicial power, it refers to the authority of a court to hear and decide a case.[81] In the context of these petitions, we hark back to the basic principles governing the question of jurisdiction over the subject matter.

First, jurisdiction over the subject matter is determined only by the Constitution and by law.[82] As a matter of substantive law, procedural rules alone can confer no jurisdiction to courts or administrative agencies.[83] In fact, an administrative agency, acting in its quasi-judicial capacity, is a tribunal of limited jurisdiction and, as such, could wield only such powers that are specifically granted to it by the enabling statutes. In contrast, an

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80 Webser's Third New Int'l Dictionary.
81 Oscar M. Herrera, Remedial Law, Volume 1, p. 71.
82 CONSTITUTION, Article VIII, Section 2.

RTC is a court of general jurisdiction, *i.e.*, it has jurisdiction over cases whose subject matter does not fall within the exclusive original jurisdiction of any court, tribunal or body exercising judicial or quasi-judicial functions.[84]

Second, jurisdiction over the subject matter is determined not by the pleas set up by the defendant in his answer[85] but by the allegations in the complaint,[86] irrespective of whether the plaintiff is entitled to favorable judgment on the basis of his assertions.[87] The reason is that the complaint is supposed to contain a concise statement of the ultimate facts constituting the plaintiff's causes of action.[88]

Third, jurisdiction is determined by the law in force at the time of the filing of the complaint.[89]

Parenthetically, the Court observes that none of the parties ever raised the issue of whether the BSP can simply disown its jurisdiction, assuming it has, by the simple expedient of promulgating a new circular (specially applicable to a certificate of indebtedness issued by the BSP itself), inconsistent with an old circular, assertive of its limited jurisdiction over ownership issues arising from fraudulent assignments of a certificate of indebtedness. The PDB, in particular, relied solely and heavily on CB Circular No. 28.

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83 *Fernandez v. Fulgueras*, G.R. No. 178575, June 29, 2010, 622 SCRA 174, 178; *Dept. of Agrarian Reform Adjudication Board v. Lubrica*, 497 Phil. 313, 322-324 (2005); and *Republic v. Court of Appeals*, G.R. No. 122256, October 30, 1996, 263 SCRA 758, 764.

84 Batas Pambansa Blg. 129, Section 19(6).

85 *Tamano v. Ortiz*, G.R. No. 126603, June 29, 1998, 291 SCRA 584, 588.

86 *Mendoza v. Germino*, G.R. No. 165676, November 22, 2010, 635 SCRA 537, 544; *Eristingcol v. Court of Appeals*, G.R. No. 167702, March 20, 2009, 582 SCRA 139, 146; *Lacson Hermanas Inc. v. Heirs of Cenon Ignancio*, 500 Phil. 673, 678-679 (2005); and *Pilipinas Loan Co., Inc. v. Securities and Exchange Comm.*, 408 Phil. 291, 300 (2001).

87 *Multinational Village Homeowners' Association, Inc. v. Court of Appeals*, G.R. No. 98023, October 17, 1991, 203 SCRA 104, 107.

88 *Nocum v. Tan*, G.R. No. 145022, September 23, 2006, 470 SCRA 639, 644-645.

89 *Errectors, Inc. v. NLRC*, 326 Phil. 640, 645 (1996).

In light of the above principles pointing to jurisdiction as a matter of substantive law, the provisions of the law itself that gave CB Circular 769-80 its life and jurisdiction must be examined.

The Philippine Central Bank

On January 3, 1949, Congress created the Central Bank of the Philippines (*Central Bank*) as a corporate body with the primary objective of (i) maintaining the internal and external monetary stability in the Philippines; and (ii) preserving the international value and the convertibility of the peso.[90] In line with these broad objectives, the Central Bank was empowered to issue rules and regulations "necessary for the effective discharge of the responsibilities and exercise of the powers assigned to the Monetary Board and to the Central Bank."[91] Specifically, the Central Bank is authorized to organize (other) departments for the efficient conduct of its business and whose powers and duties "shall be determined by the Monetary Board, within the authority granted to the Board and the Central Bank"[92] under its original charter.

With the 1973 Constitution, the then Central Bank was constitutionally made as the country's central monetary authority until such time that Congress[93] shall have established a central bank. The 1987 Constitution continued to recognize this function of the then Central Bank until Congress, pursuant to the Constitution, created a new central monetary authority which later came to be known as the *Bangko Sentral ng Pilipinas*.

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90 Section 2 of R.A. No. 265, as amended.
91 Section 14 of R.A. No. 265, as amended.
92 Section 35 of R.A. No. 265.
93 The National Assembly.

Under the New Central Bank Act (*R.A. No. 7653*),[94] the BSP is given the responsibility of providing *policy* directions in the areas of money, banking and credit; it is given, too, the primary objective of maintaining price stability, conducive to a balanced and sustainable growth of the economy, and of promoting and maintaining monetary stability and convertibility of the peso.[95]

The Constitution expressly grants the BSP, as the country's central monetary authority, the power of supervision over the operation of banks, while leaving with Congress the authority to define the BSP's regulatory powers over the operations of finance companies and other institutions performing similar functions. Under R.A. No. 7653, the BSP's powers and functions include (i) supervision over the operation of banks; (ii) regulation of operations of finance companies and non-bank financial institutions performing quasi banking functions; (iii) sole power and authority to issue currency within the Philippine territory; (iv) engaging in foreign exchange transactions; (v) making rediscounts, discounts, loans and advances to banking and other financial institutions to influence the volume of credit consistent with the objective of achieving price stability; (vi) engaging in open market operations; and (vii) acting as banker and financial advisor of the government.

On the BSP's power of supervision over the operation of banks, Section 4 of R.A. No. 8791 (The General Banking Law of 2000) elaborates as follows:

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94 Took effect on July 3, 1993.

95 Section 3 of R.A. No. 7653,

CHAPTER II
AUTHORITY OF THE BANGKO SENTRAL

SECTION 4. Supervisory Powers. — The operations and activities of banks shall be subject to supervision of the Bangko Sentral. "Supervision" shall include the following:

4.1. The issuance of rules of conduct or the establishment of standards of operation for uniform application to all institutions or functions covered, taking into consideration the distinctive character of the operations of institutions and the substantive similarities of specific functions to which such rules, modes or standards are to be applied;

4.2. The conduct of examination to determine compliance with laws and regulations if the circumstances so warrant as determined by the Monetary Board;

4.3. Overseeing to ascertain that laws and regulations are complied with;

4.4. Regular investigation which shall not be oftener than once a year from the last date of examination to determine whether an institution is conducting its business on a safe or sound basis: Provided, That the deficiencies/irregularities found by or discovered by an audit shall be immediately addressed;

4.5. Inquiring into the solvency and liquidity of the institution (2-D); or

4.6. Enforcing prompt corrective action. (n)

The Bangko Sentral shall also have supervision over the operations of and exercise regulatory powers over quasi-banks, trust entities and other financial institutions which under special laws are subject to Bangko Sentral supervision. (2-Ca)

For the purposes of this Act, "quasi-banks" shall refer to entities engaged in the borrowing of funds through the issuance, endorsement or assignment with recourse or acceptance of deposit substitutes as defined in Section 95 of Republic Act No. 7653 (hereafter the "New Central Bank Act") for purposes of relending or purchasing of receivables and other obligations. [emphasis ours]

While this provision empowers the BSP to oversee the operations and activities of banks to "ascertain that laws and regulations are complied with," the existence of the BSP's jurisdiction in the present dispute cannot rely on this provision. The fact remains that the BSP already made known to the PDB its unfavorable position on the latter's claim of fraudulent

assignment due to the latter's own *failure to comply*[96] with existing regulations:

> In this connection, Section 10 (b) 2 also requires that a "Detached assignment will be recognized or accepted only upon previous notice to the Central Bank x x x." In fact, in a memo dated September 23, 1991 xxx then CB Governor [Jose L.] Cuisia advised all banks (including PDB) xxx as follows:
>
> > In view recurring incidents ostensibly disregarding certain provisions of CB circular No. 28 (as amended) covering assignments of registered bonds, ***all banks and all concerned are enjoined to observe strictly the pertinent provisions*** of said CB Circular as hereunder quoted:
> >
> > x x x x
> >
> > > Under Section 10.b. (2)
> > >
> > > x x x Detached assignment will be recognized or accepted **only upon previous notice** to the Central Bank and its use is authorized only under the following circumstances:
> > >
> > > (a) x x x
> > > (b) x x x
> > > (c) assignments of treasury notes and certificates of indebtedness in registered form which are not provided at the back thereof with assignment form.
> > > (d) Assignment of securities which have changed ownership several times.
> > > (e) x x x
> > >
> > > **Non-compliance herewith will constitute a basis for non-action or withholding of action** on redemption/payment of interest coupons/transfer transactions or denominational exchange that may be directly affected thereby. [Boldfacing supplied]
>
> **Again, the books of the BSP do not show that the supposed assignment of subject CB Bills was ever recorded in the BSP's books**. [Boldfacing supplied]

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96 *Rollo*, G.R. Nos. 154470-71, pp. 145-146.

However, the PDB faults the BSP for not recording the assignment of the CB bills in the PDB's favor despite the fact that the PDB already requested the BSP to record its assignment in the BSP's books as early as June 30, 1994.[97]

The PDB's claim is not accurate. What the PDB requested the BSP on that date was ***not*** the recording *of the assignment* of the CB bills in its favor ***but*** the annotation *of its claim* over the CB bills at the time when (i) it was no longer in possession of the CB bills, having been transferred from one entity to another and (ii) all it has are the detached assignments, which the PDB has not shown to be compliant with Section 10 (b) 2 above-quoted. Obviously, the PDB cannot insist that the BSP take cognizance of its plaint when the basis of the BSP's refusal under existing regulation, which the PDB is bound to observe, is the PDB's own failure to comply therewith.

True, the BSP exercises supervisory powers (and regulatory powers) over banks (and quasi banks). The issue presented before the Court, however, does not concern the BSP's supervisory power over banks as this power is understood under the General Banking Law. In fact, there is nothing in the PDB's petition (even including the letters it sent to the BSP) that would support the BSP's jurisdiction outside of CB Circular No. 28, under its power of supervision, over conflicting claims to the proceeds of the CB bills.

BSP has quasi-judicial powers over a class of cases which does not include the adjudication of ownership of the CB bills in question

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97 *Rollo*, G.R. Nos. 154470-71, p. 182.

In *United Coconut Planters Bank v. E. Ganzon, Inc.*,[98] the Court considered the BSP as an administrative agency,[99] exercising quasi-judicial functions through its Monetary Board. It held:

> A quasi-judicial agency or body is an organ of government other than a court and other than a legislature, which affects the rights of private parties through either adjudication or rule-making. The very definition of an administrative agency includes its being vested with quasi-judicial powers. The ever increasing variety of powers and functions given to administrative agencies recognizes the need for the active intervention of administrative agencies in matters calling for technical knowledge and speed in countless controversies which cannot possibly be handled by regular courts. A "quasi-judicial function" is a term which applies to the action, discretion, etc., of public administrative officers or bodies, who are required to investigate facts, or ascertain the existence of facts, hold hearings, and draw conclusions from them, as a basis for their official action and to exercise discretion of a judicial nature.
>
> Undoubtedly, the BSP Monetary Board is a quasi-judicial agency exercising quasi-judicial powers or functions. As aptly observed by the Court of Appeals, the BSP Monetary Board is an independent central monetary authority and a body corporate with fiscal and administrative autonomy, mandated to provide policy directions in the areas of money, banking and credit. It has power to issue subpoena, to sue for contempt those refusing to obey the subpoena without justifiable reason, to administer oaths and compel presentation of books, records and others, needed in its examination, to impose fines and other sanctions and to issue cease and desist order. Section 37 of Republic Act No. 7653, in particular, explicitly provides that the BSP Monetary Board shall exercise its discretion in determining whether administrative sanctions should be imposed on banks and quasi-banks, which necessarily implies that the BSP Monetary Board must conduct some form of investigation or hearing regarding the same. [citations omitted]

The BSP is not simply a corporate entity but qualifies as an administrative agency created, pursuant to constitutional mandate,[100] to carry out a particular governmental function.[101] To be able to perform its role as central monetary authority, the Constitution granted it fiscal and administrative autonomy. In general, administrative agencies exercise

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98 G.R. No. 168859, June 30, 2009, 591 SCRA 321, 338-341.

99 See also *Busuego v. Court of Appeals*, 364 Phil. 116, 127, 129-130 (1999).

100 CONSTITUTION, Article XII, Section 20.

powers and/or functions which may be characterized as administrative, investigatory, regulatory, quasi-legislative, or quasi-judicial, or a mix of these five, as may be conferred by the Constitution or by statute.[102]

While the very nature of an administrative agency and the raison d'être for its creation[103] and proliferation dictate a grant of quasi-judicial power to it, ***the matters over which it may exercise this power*** must find sufficient anchorage on its enabling law, either by express provision or by necessary implication. Once found, the quasi-judicial power partakes of the nature of a limited and special jurisdiction, that is, to hear and determine a ***class of cases*** within its peculiar competence and expertise. In other words, the provisions of the enabling statute are the yardsticks by which the Court would measure the quantum of quasi-judicial powers an administrative agency may exercise, as defined in the enabling act of such agency.[104]

Scattered provisions in R.A. No. 7653 and R.A. No. 8791, *inter alia*, exist, conferring jurisdiction on the BSP on certain matters.[105] For instance, under the situations contemplated under Section 36, par. 2[106] (where a bank or quasi bank persists in carrying on its business in an unlawful or unsafe

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[101] Ruben E. Agpalo, Administrative Law, Law on Public Offices and Election Law, 2005 ed., p. 7.

[102] *Soriano v. Laguardia*, G.R. Nos. 164785 and 165636, April 29, 2009, 587 SCRA 79, 90; and *Smart Communications, Inc. v. Nat'l Telecommunications Commission*, 456 Phil. 145, 155 (2003).

[103] The ever increasing variety of powers and functions given to administrative agencies recognizes the need for the active intervention of administrative agencies in matters calling for technical knowledge and speed in countless controversies which cannot possibly be handled by regular courts. *Francisco, Jr. v. Toll Regulatory Board, et al.*, G.R. No. 166910, October 19, 2010, 633 SCRA 470, 520, citing *C.T. Torres Enterprises, Inc. v. Hibionada*, G.R. No. 80916, November 9, 1990, 191 SCRA 268.

[104] *Department of Agrarian Reform Adjudication Board (DARAB) v. Lubrica*, G.R. No. 159145, April 29, 2005, 457 SCRA 800; and *Fernandez v. Fulgeras*, G.R. No. 178575, June 29, 2010, 622 SCRA 174, 179.

[105] See also *Koruga v. Arcenas, Jr.*, G.R. Nos. 168332 and 169053, June 19, 2009, 590 SCRA 49, 60-70.

[106] Section 36, par. 2 of R.A. No. 7653 reads:

Section 36. *Proceedings Upon Violation of This Act and Other Banking Laws, Rules, Regulations, Orders or Instructions.* – xxx

Whenever a bank or quasi-bank persists in carrying on its business in an unlawful or unsafe manner, the Board may, without prejudice to the penalties provided in the preceding paragraph of this

manner) and Section 37[107] (where the bank or its officers willfully violate the bank's charter or by-laws, or the rules and regulations issued by the Monetary Board) of R.A. No. 7653, the BSP may place an entity under

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section and the administrative sanctions provided in Section 37 of this Act, take action under Section 30 of this Act.

[107] Section 37 reads:

> Section 37. *Administrative Sanctions on Banks and Quasi-banks.* - Without prejudice to the criminal sanctions against the culpable persons provided in Sections 34, 35, and 36 of this Act, the Monetary Board may, at its discretion, impose upon any bank or quasi-bank, their directors and/or officers, for any willful violation of its charter or by-laws, willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board, the following administrative sanctions, whenever applicable:
>
> (a) fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed Thirty thousand pesos (₱30,000.00) a day for each violation, taking into consideration the attendant circumstances, such as the nature and gravity of the violation or irregularity and the size of the bank or quasi-bank;
> (b) suspension of rediscounting privileges or access to Bangko Sentral credit facilities;
> (c) suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
> (d) suspension of interbank clearing privileges; and/or
> (e) revocation of quasi-banking license.
>
> x x x x
>
> Whether or not there is an administrative proceeding, if the institution and/or the directors and/or officers concerned continue with or otherwise persist in the commission of the indicated practice or violation, the Monetary Board may issue an order requiring the institution and/or the directors and/or officers concerned to cease and desist from the indicated practice or violation, and may further order that immediate action be taken to correct the conditions resulting from such practice or violation. The cease and desist order shall be immediately effective upon service on the respondents.
>
> The respondents shall be afforded an opportunity to defend their action in a hearing before the Monetary Board or any committee chaired by any Monetary Board member created for the purpose, upon request made by the respondents within five (5) days from their receipt of the order. If no such hearing is requested within said period, the order shall be final. If a hearing is conducted, all issues shall be determined on the basis of records, after which the Monetary Board may either reconsider or make final its order.
>
> The Governor is hereby authorized, at his discretion, to impose upon banking institutions, for any failure to comply with the requirements of law, Monetary Board regulations and policies, and/or instructions issued by the Monetary Board or by the Governor, fines not in excess of Ten thousand pesos (₱10,000.00) a day for each violation, the imposition of which shall be final and executory until reversed, modified or lifted by the Monetary Board on appeal.

receivership and/or liquidation or impose administrative sanctions upon the entity or its officers or directors.

Among its several functions under R.A. No. 7653, the BSP is authorized to engage in open market operations and thereby "issue, place, buy and sell freely negotiable evidences of indebtedness of the Bangko Sentral" in the following manner.

> SEC. 90. *Principles of Open Market Operations*. – The open market purchases and sales of securities by the Bangko Sentral shall be made exclusively in accordance with its primary objective of achieving price stability.
>
> x x x x
>
> SEC. 92. *Issue and Negotiation of Bangko Sentral Obligations.* – In order to provide the Bangko Sentral with effective instruments for open market operations, the Bangko Sentral may, **subject to such rules and regulations as the Monetary Board may prescribe and in accordance with the principles stated in Section 90 of this Act**, issue, place, buy and sell freely negotiable evidences of indebtedness of the Bangko Sentral: *Provided,* That issuance of such certificates of indebtedness shall be made only in cases of extraordinary movement in price levels. Said evidences of indebtedness may be issued directly against the international reserve of the Bangko Sentral or against the securities which it has acquired under the provisions of Section 91 of this Act, or may be issued without relation to specific types of assets of the Bangko Sentral.
>
> The Monetary Board **shall determine the interest rates, maturities and other characteristics of said obligations of the Bangko Sentral**, and may, if it deems it advisable, denominate the obligations in gold or foreign currencies.
>
> Subject to the principles stated in Section 90 of this Act, the evidences of indebtedness of the Bangko Sentral to which this section refers may be acquired by the Bangko Sentral before their maturity, either through purchases in the open market or through redemptions at par and by lot if the Bangko Sentral has reserved the right to make such redemptions. The evidences of indebtedness acquired or redeemed by the Bangko Sentral shall not be included among its assets, and shall be immediately retired and cancelled.[108] (italics supplied; emphases ours)

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[108] RA No. 265, as amended, is similarly worded, as follows:

> Sec. 96. Principles of open market operations. - The open market purchases and sales of securities by the Central Bank shall be made exclusively for the purpose of achieving the

The primary objective of the BSP is to maintain price stability.[109] The BSP has a number of monetary policy instruments at its disposal to promote price stability. To increase or reduce liquidity in the financial system, the BSP uses open market operations, among others.[110] Open market operation is a monetary tool where the BSP publicly buys or sells government securities[111] from (or to) banks and financial institutions in order to expand or contract the supply of money. By controlling the money supply, the BSP is able to exert some influence on the prices of goods and services and achieve its inflation objectives.[112]

> objectives of the national monetary policy and shall be limited to the operations authorized in sections 97 and 98 of this Act.
>
> x x x x
>
> Sec. 98. Issue and negotiation of Central Bank obligations. - In order to provide the Central Bank with effective instruments for open market operations, the Bank may, **subject to such rules and regulations as the Monetary Board may prescribe** and **in accordance with the principles stated in section 96 of this Act**, issue, place, buy and sell freely negotiable evidences of indebtedness of the Bank. Said evidences of indebtedness may be issued directly against the international reserve of the Bank or against the securities which it has acquired under the provisions of section 97 of this Act, or may be issued without relation to specific types of assets of the Bank.
>
> The Monetary Board shall determine the interest rates, maturities and other characteristics of said obligations of the Bank, and may, if it deems it advisable, denominate the obligations in gold or foreign currencies.
>
> Subject to the principles stated in section 96 of this Act, the evidences of indebtedness of the Central Bank to which this section refers may be acquired by the Bank before their maturity, either through purchases in the open market or through redemptions at par and by lot if the Bank has reserved the right to make such redemptions. The evidences of indebtedness acquired or redeemed by the Central Bank shall not be included among its assets, and shall be immediately retired and cancelled. [emphasis ours]

[109] Since 2002, the BSP has adopted inflation targeting as a framework of monetary policy aimed at achieving the objective of price stability. Inflation targeting is focused mainly on achieving a low and stable inflation, supportive of the economy's growth objective. This approach entails the announcement of an explicit inflation target that the BSP promises to achieve over a given time period. (http://www.bsp.gov.ph/monetary/targeting.asp)

[110] http://www.bsp.gov.ph/monetary/targeting.asp (accessed on August 15, 2012).

[111] Republic Act No. 8799 defines securities as follows:

> 3.1. "Securities" are shares, participation or interests in a corporation or in a commercial enterprise or profit-making venture and evidenced by a certificate, contract, instruments, whether written or electronic in character. It includes:
>
> (a) Shares of stocks, bonds, debentures, notes, evidences of indebtedness, asset-backed securities[.]

[112] http://www.bsp.gov.ph/financial/open.asp (accessed on August 15, 2012).

Once the issue and/or sale of a security is made, the BSP would necessarily make a determination, in accordance with its own rules, of the entity entitled to receive the proceeds of the security upon its maturity. This determination by the BSP is an exercise of its *administrative* powers[113] under the law as an incident to its power to prescribe rules and regulations governing open market operations to achieve the "primary objective of achieving price stability."[114] As a matter of necessity, too, the same rules and regulations facilitate transaction with the BSP by providing for an orderly manner of, among others, issuing, transferring, exchanging and paying securities representing public debt.

Significantly, when *competing* claims of ownership over the proceeds of the securities it has issued are brought before it, the law has not given the BSP the *quasi-judicial* power to resolve these competing claims as part of its power to engage in open market operations. Nothing in the BSP's charter confers on the BSP the jurisdiction or authority to determine this kind of claims, arising out of a subsequent transfer or assignment of evidence of indebtedness – a matter that appropriately falls within the competence of courts of general jurisdiction. That the statute withholds this power from the BSP is only consistent with the fundamental reasons for the creation of a Philippine central bank, that is, to lay down stable monetary policy and exercise bank supervisory functions. Thus, the BSP's assumption of jurisdiction over competing claims cannot find even a stretched-out justification under its corporate powers "to do and perform any and all

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[113] Administrative functions are those which involve the regulation and control over the conduct and affairs of individuals for their own welfare and the promulgation of rules and regulations to better carry out the policy of the legislature or such as are devolved upon the administrative agency by the organic law of its existence (*In Re: Designation of Judge Rodolfo U. Manzano as member of the Ilocos Norte Provincial Committee on Justice*, 248 Phil. 487, 491-492).

[114] R.A. No. 7653, Section 90.

things that may be necessary or proper to carry out the purposes" of R.A. No. 7653. [115]

To reiterate, open market operation is a monetary policy instrument that the BSP employs, among others, to regulate the supply of money in the economy to influence the timing, cost and availability of money and credit, as well as other financial factors, for the purpose of stabilizing the price level.[116] What the law grants the BSP is a continuing role to shape and carry out the country's monetary policy – not the authority to adjudicate competing claims of ownership over the securities it has issued – since this authority would not fall under the BSP's purposes under its charter.

While R.A. No. 7653[117] empowers the BSP to conduct administrative hearings and render judgment for or against an entity under its supervisory and regulatory powers and even authorizes the BSP Governor to "render decisions, or rulings x x x on matters regarding *application or enforcement of* laws pertaining to institutions supervised by the [BSP] and laws pertaining to quasi-banks, as well as *regulations, policies or instructions* issued by the Monetary Board," it is precisely the text of the BSP's own regulation (whose validity is not here raised as an issue) that points to the BSP's limited role in case of an allegedly fraudulent assignment to simply (i) issuing and circularizing a '"stop order" against the transfer, exchange, redemption of the certificate of indebtedness, including the payment of interest coupons, and (ii) withholding action on the certificate.

A similar conclusion can be drawn from the BSP's administrative adjudicatory power in cases of "willful failure or refusal to comply with, or

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115 R.A. No. 7653, Section 5.

116 www.bsp.gov.ph/downloads/Publications/FAQs/targeting.pdf (accessed on August 12, 2012).

117 See also Presidential Decree No. 72, Section 25.

violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor."[118] The non-compliance with the pertinent requirements under CB Circular No. 28, as amended, deprives a party from any right to demand payment from the BSP.

In other words, the grant of quasi-judicial authority to the BSP cannot possibly extend to situations which do not call for the exercise by the BSP of its supervisory or regulatory functions over entities within its jurisdiction.[119] The fact alone that the parties involved are banking institutions does not necessarily call for the exercise by the BSP of its quasi-judicial powers under the law.[120]

The doctrine of primary jurisdiction argues against BSP's purported authority to adjudicate ownership issues over the disputed CB bills

Given the preceding discussions, even the PDB's invocation of the doctrine of primary jurisdiction is misplaced.

In the exercise of its plenary legislative power, Congress may create administrative agencies endowed with quasi-legislative and quasi-judicial powers. Necessarily, Congress likewise defines the limits of an agency's jurisdiction in the same manner as it defines the jurisdiction of courts.[121] As

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118 R.A. No. 7653, Section 37.

119 See *Cemco Holdings, Inc. v. National Life Insurance Company of the Philippines, Inc.*, G.R. No. 171815, August 7, 2007, 529 SCRA 355.

120 In *Taule v. Santos* (G.R. No. 90336, August 12, 1991, 200 SCRA 512, 521), the Court ruled that – "…unless expressly empowered, administrative agencies are bereft of quasi- judicial powers. The jurisdiction of administrative authorities is dependent entirely upon the provisions of the statutes reposing power in them; they cannot confer it upon themselves. Such jurisdiction is essential to give validity to their determinations."

a result, it may happen that either a court or an administrative agency has exclusive jurisdiction over a specific matter or both have concurrent jurisdiction on the same. It may happen, too, that courts and agencies may willingly relinquish adjudicatory power that is rightfully theirs in favor of the other. One of the instances when a court may properly defer to the adjudicatory authority of an agency is the applicability of the doctrine of primary jurisdiction.[122]

As early as 1954, the Court applied the doctrine of primary jurisdiction under the following terms:

> 6. In the fifties, the Court taking cognizance of the move to vest jurisdiction in administrative commissions and boards the power to resolve specialized disputes xxx ruled that Congress in requiring the Industrial Court's intervention in the resolution of labor-management controversies xxx meant such jurisdiction to be exclusive, although it did not so expressly state in the law. The Court held that under the "sense-making and expeditious doctrine of primary jurisdiction ... the courts cannot or will not determine a controversy involving a question which is within the jurisdiction of an administrative tribunal, where the question demands the exercise of **sound administrative discretion** requiring the special knowledge, experience, and services of the administrative tribunal to determine technical and intricate matters of fact, and a uniformity of ruling is essential to comply with the purposes of the regulatory statute administered."[123] (emphasis ours)

In *Industrial Enterprises, Inc. v. Court of Appeals,*[124] the Court ruled that while an action for rescission of a contract between coal developers appears to be an action cognizable by regular courts, the trial court remains to be without jurisdiction to entertain the suit since the contract sought to be rescinded is "inextricably tied up with the right to develop coal-bearing lands and the determination of whether or not the reversion of the coal

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[121] CONSTITUTION, Article 8, Section 2; *Tropical Homes, Inc. v. National Housing Authority*, 236 Phil. 580, 587-588 (1987).

[122] Aaron J. Lockwood, The Primary Jurisdiction Doctrine: Competing Standards of Appellate Review.

[123] *Sps. Abejo v. Judge De la Cruz*, 233 Phil. 668, 684-685 (1987), citing *Pambujan Sur United Mine Workers v. Samar Mining Co., Inc*., 94 Phil. 932, 941 (1954).

operating contract over the subject coal blocks to [the plaintiff] would be in line with the [country's national program and objective on coal-development and] over-all coal-supply-demand balance." It then applied the doctrine of primary jurisdiction –

> In recent years, it has been the jurisprudential trend to apply the doctrine of primary jurisdiction in many cases involving matters that demand the special competence of administrative agencies. It may occur that the Court has jurisdiction to take cognizance of a particular case, which means that the matter involved is also judicial in character. **However, if the case is such that its determination requires the expertise, specialized skills and knowledge of the proper administrative bodies because technical matters or intricate questions of facts are involved**, then relief must first be obtained in an administrative proceeding before a remedy will be supplied by the courts even though the matter is within the proper jurisdiction of a court. This is the doctrine of primary jurisdiction. It applies "where a claim is *originally cognizable in the courts,* and **comes into play whenever enforcement of the claim requires the resolution of issues which, under a regulatory scheme, have been placed within the special competence of an administrative body**[.]"
>
> Clearly, the doctrine of primary jurisdiction finds application in this case since the question of what coal areas should be exploited and developed and which entity should be granted coal operating contracts over said areas involves a **technical determination** by the [Bureau of Energy Development] as the administrative agency in possession of the specialized expertise to act on the matter. The Trial Court does not have the competence to decide matters concerning activities relative to the exploration, exploitation, development and extraction of mineral resources like coal. These issues preclude an initial judicial determination. [emphases ours]

The absence of any express or implied statutory power to adjudicate conflicting claims of ownership or entitlement to the proceeds of its certificates of indebtedness finds complement in the similar absence of any technical matter that would call for the BSP's special expertise or competence.[125] In fact, what the PDB's petitions bear out is essentially the nature of the transaction it had with the subsequent transferees of the subject

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[124] 263 Phil. 352, 358-359 (1990).

CB bills (BOC and Bancap) and not any matter more appropriate for special determination by the BSP or any administrative agency.

In a similar vein, it is well-settled that the interpretation given to a rule or regulation by those charged with its execution is entitled to the greatest weight by the courts construing such rule or regulation.[126] While there are exceptions[127] to this rule, the PDB has not convinced us that a departure is warranted in this case. Given the non-applicability of the doctrine of primary jurisdiction, the BSP's own position, in light of Circular No. 769-80, deserves respect from the Court.

Ordinarily, cases involving the application of doctrine of primary jurisdiction are initiated by an action invoking the jurisdiction of a court or administrative agency to resolve the substantive legal conflict between the parties. In this sense, the present case is quite unique since the court's jurisdiction was, *originally*, invoked *to compel* an administrative agency (the BSP) to resolve the legal conflict of ownership over the CB bills - instead of obtaining a judicial determination of the same dispute.

The remedy of interpleader

Based on the unique factual premise of the present case, the RTC acted correctly in initially assuming jurisdiction *over the PDB's petition for mandamus, prohibition and injunction.*[128] While the RTC agreed (albeit erroneously) with the PDB's view (that the BSP has jurisdiction), it,

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125 See *Phil. Pharmawealth, Inc. v. Pfizer, Inc.*, G.R. No. 167715, November 17, 2010, 635 SCRA 143, 153-154; and *GMA Network, Inc. v. ABS-CBN Broadcasting Corp., et al*., 507 Phil. 718, 724-726 (2005).

126 *Bagatsing v. Committee on Privatization, PNCC,* 316 Phil. 404, 429 (1995).

127 The courts may disregard contemporaneous construction where there is no ambiguity in the law, where the construction is clearly erroneous, where a strong reason exists to the contrary, and where the courts have previously given the statute a different interpretation. (Ruben E. Agpalo, Statutory Construction, 5th ed., 2003, p. 116.)

128 Batas Pambansa Blg. 129, Section 21(1).

however, dismissed not only the BOC's/the BSP's counterclaims but *the PDB's petition itself* as well, on the ground that it lacks jurisdiction.

This is plain error.

Not only the parties themselves, but more so the courts, are bound by the rule on non-waiver of jurisdiction.[129] Even indulging the RTC, if it believes that jurisdiction over the BOC's counterclaims and the BSP's counterclaim/crossclaim for interpleader calls for the application of the doctrine of primary jurisdiction, the allowance of the PDB's petition even becomes imperative because courts may raise the issue of primary jurisdiction *sua sponte.*[130]

Of the three possible options available to the RTC, the adoption of either of these two would lead the trial court into serious legal error: *first*, ***if*** it granted the PDB's petition, its decision would have to be set aside on appeal because the BSP has no jurisdiction as previously discussed; and *second* ***when*** it dismissed the PDB's petitions and the BOC's counterclaims *on the ground that it lacks jurisdiction*, the trial court seriously erred because precisely, the resolution of the conflicting claims over the CB bills falls within its general jurisdiction.

Without emasculating its jurisdiction, the RTC could have properly dismissed the PDB's petition ***but*** on the ground that *mandamus* does not lie against the BSP; but even this correct alternative is no longer plausible since the BSP, as a respondent below, already properly brought before the RTC the remaining conflicting claims over the subject CB bills by way of a

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129 *Sps. Atuel v. Sps. Valdez*, 451 Phil. 631, 641, 645 (2003).

130 *Euro-Med Laboratories Phil., Inc. v. Province of Batangas*, 527 Phil. 623, 628 (2006).

counterclaim/crossclaim for interpleader. Section 1, Rule 62 of the Rules of Court provides when an interpleader is proper:

> SECTION 1. When interpleader proper. – Whenever conflicting claims upon the same subject matter are or may be made against a person who claims no interest whatever in the subject matter, or an interest which in whole or in part is not disputed by the claimants, he may bring an action against the conflicting claimants to compel them to interplead and litigate their several claims among themselves.

The remedy of an action of interpleader[131] is designed to protect a person against double vexation in respect of a single liability.[7] It requires, as an indispensable requisite, that conflicting claims upon the same subject matter are or may be made against the stakeholder (the possessor of the subject matter) who claims no interest whatever in the subject matter or an interest which in whole or in part is not disputed by the claimants.[132] Through this remedy, the stakeholder can join all competing claimants in a single proceeding to determine conflicting claims without exposing the stakeholder to the possibility of having to pay more than once on a single liability.[133]

When the court orders that the claimants litigate among themselves, in reality a new action arises,[134] where the claims of the interpleaders

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131 The action of interpleader is a remedy whereby a person who has property, whether personal or real, in his possession, or an obligation to render wholly or partially, without claiming any right in both, or claims an interest which in whole or in part is not disputed by the conflicting claimants, comes to court and asks that the persons who claim the said property or who consider themselves entitled to demand compliance of the obligation, be required to litigate among themselves, in order to determine finally who is entitled to one or the other thing. (Oscar M. Herrera, Remedial Law, Book III, 2006 ed., p. 224, citing *Alvarez v. Commonwealth*, 65 Phil. 302, 311-312.

132 Rules of Court, Rule 62, Section 1.

133 (digitalcommons.pace.edu/cgi/viewcontent.cgi?article=1044). The device was developed on the theory that the stakeholder should not be forced to take the personal risk of evaluating the claims (44B Am Jur 2d Interpleader § 1). If the BSP indeed has jurisdiction over the parties' conflicting claims, the remedy of interpleader would obviously be inappropriate since the exercise of a quasi-judicial discretion cannot generally, entail any personal risk to the official who exercises it. Having found that the BSP lacks jurisdiction to resolve the parties' conflicting claims, payment to anyone of the conflicting claimants would necessarily result in exposing the BSP to "double vexation in respect of a single liability."

134 *Alvarez v. Commonwealth of the Philippines*, 65 Phil. 302, 312 (1938).

themselves are brought to the fore, the stakeholder as plaintiff is relegated merely to the role of initiating the suit. In short, the remedy of interpleader, when proper, merely provides an avenue for the conflicting claims on the same subject matter to be threshed out *in an* ***action***. Section 2 of Rule 62 provides:

> SEC. 2. Order. – Upon the filing of the complaint, the court shall issue an order requiring the conflicting claimants to interplead with one another. If the interests of justice so require, the court may direct in such order that the subject matter be paid or delivered to the court.

This is precisely what the RTC did by granting the BSP's motion to interplead. The PDB itself "agree[d] that the various claimants should *now* interplead." Thus, the PDB and the BOC subsequently entered into two separate escrow agreements, covering the CB bills, and submitted them to the RTC for approval.

In granting the BSP's motion, the RTC acted on the correct premise that it has jurisdiction to resolve the parties' conflicting claims over the CB bills - consistent with the rules and the parties' conduct - and accordingly required the BOC to amend its answer and for the PDB to comment thereon. Suddenly, however, the PDB made an about-face and questioned the jurisdiction of the RTC. Swayed by the PDB's argument, the RTC dismissed even the PDB's petition - which means that it did not actually *compel* the BSP to resolve the BOC's and the PDB's claims.

Without the motion to interplead and the order granting it, the RTC could only dismiss the PDB's petition since it is the RTC which has jurisdiction to resolve the parties' conflicting claims – not the BSP. Given that the motion to interplead has been actually filed, the RTC could not have

really granted the relief originally sought in the PDB's petition since the RTC's order granting the BSP's motion to interplead - to which the PDB in fact acquiesced into - *effectively resulted in the dismissal of the PDB's petition*. This is not altered by the fact that the PDB additionally prayed in its petition for damages, attorney's fees and costs of suit "against the public respondents" because the grant of the order to interplead effectively sustained the propriety of the BSP's resort to this procedural device.

Interpleader

1. as a special civil action

What is quite unique in this case is that the BSP did not initiate the interpleader suit through an original complaint but through its Answer. This circumstance becomes understandable if it is considered that insofar as the BSP is concerned, the PDB does not possess any right to have its claim recorded in the BSP's books; consequently, the PDB cannot properly be considered even as a potential claimant to the proceeds of the CB bills upon maturity. Thus, the interpleader was only an alternative position, made only in the BSP's Answer.[135]

The remedy of interpleader, as a special civil action, is primarily governed by the specific provisions in Rule 62 of the Rules of Court and secondarily by the provisions applicable to ordinary civil actions.[136] Indeed, Rule 62 does not expressly authorize the filing of a complaint-in-interpleader as part of, although separate and independent from, the answer. Similarly, Section 5, Rule 6, in relation to Section 1, Rule 9 of the Rules of Court[137] does not include a complaint-in-interpleader as a claim,[138] a form of

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135 *Rollo*, G.R. Nos. 154470-71, pp. 147-151.

136 Rule 1, Section 3.a of the Rules of Court.

137 Section 1, Rule 9 of the Rules of Court reads:

defense,[139] or as an objection that a defendant may be allowed to put up in his answer or in a motion to dismiss. This does not mean, however, that the BSP's "counter-complaint/cross-claim for interpleader" runs counter to general procedures.

Apart from a pleading,[140] the rules[141] allow a party to seek an affirmative relief from the court through the procedural device of a motion. While captioned "Answer with counter-complaint/cross-claim for interpleader," the RTC understood this as in the nature of a motion,[142] seeking relief which essentially consists in an order for the conflicting

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> Section 1. *Defenses and objections not pleaded.* – Defenses and objections not pleaded either in a motion to dismiss or in the answer are deemed waived. However, when it appears from the pleadings or the evidence on record that the court has no jurisdiction over the subject matter, that there is another action pending between the same parties for the same cause, or that the action is barred by a prior judgment or by statute of limitations, the court shall dismiss the claim.

138 Section 6, Rule 6 of the Rules of Court reads:

> Sec. 6. *Counterclaim.* – A counterclaim is any claim which a defending party may have against an opposing party.

139 Sections 4, 5 and 6, Rule 6 of the Rules of Court read:

> Sec. 4. *Answer.* – An answer is a pleading in which a defending party sets forth his defenses.
>
> Sec. 5. *Defenses.* – Defenses may either be negative or affirmative.
>
> (a) A negative defense is the specific denial of the material fact or facts alleged in the pleading of the claimant essential to his cause or causes of action.
>
> (b) An affirmative defense is an allegation of a new matter which, while hypothetically admitting the material allegations in the pleading of the claimant, would nevertheless prevent or bar recovery by him. The affirmative defenses include fraud, statute of limitations, release, payment, illegality, statute of frauds, estoppel, former recovery, discharge in bankruptcy, and any other matter by way of confession and avoidance.
>
> Sec. 6. *Counterclaim.* –A counterclaim is any claim which a defending party may have against an opposing party.

140 Rule 6 (Kinds of Pleadings), Section 1 defines a pleading as the parties' "written statements of the[ir] respective claims and defenses[.]" The pleadings where a "claim" may be asserted are "in a complaint, counterclaim, cross-claim, third (fourth, etc.) party complaint, or complaint-in-intervention." Under Section 11, Rule 8 of the Rules of Court, a defendant's compulsory counterclaim or a cross-claim existing at the time he files his answer should be included in the answer.

141 Rules of Court, Rule 15, Section 1.

142 Records, Volume 4, p. 1091. Even then, the BOC filed a Manifestation and Motion praying that the BSP's own prayer for interpleader be granted (Records, Volume 4, pp. 1028-1030).

claimants to litigate with each other so that "payment is made to the rightful or legitimate owner"[143] of the subject CB bills.

The rules define a "civil action" as "one by which a party sues another for the enforcement or protection of a right, or the *prevention* or redress *of a wrong*." Interpleader may be considered as a stakeholder's remedy to prevent a wrong, that is, from making payment to one not entitled to it, thereby rendering itself vulnerable to lawsuit/s from those legally entitled to payment.

Interpleader is a civil action made special by the existence of particular rules to govern the *uniqueness* of its application and operation. Under Section 2, Rule 6 of the Rules of Court, governing *ordinary* civil actions, a party's claim is asserted "in a complaint, counterclaim, cross-claim, third (fourth, etc.)-party complaint, or complaint-in-intervention." In an interpleader suit, however, a claim is not required to be contained in any of these pleadings but in the answer-(of the conflicting claimants)-in-interpleader. This claim is different from the counter-claim (or cross-claim, third party-complaint) which is separately allowed under Section 5, par. 2 of Rule 62.

2. *the payment of docket fees covering BOC's counterclaim*

The PDB argues that, even assuming that the RTC has jurisdiction over the issue of ownership of the CB bills, the BOC's failure to pay the appropriate docket fees prevents the RTC from acquiring jurisdiction over the BOC's "counterclaims."

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143 *Rollo*, G.R. Nos. 154470-71, p. 148.

We disagree with the PDB.

To reiterate and recall, the order granting the "PDB's motion to interplead," already resulted in the dismissal of the PDB's petition. The same order required the BOC to amend its answer and for the conflicting claimants to comment, presumably to conform to the nature of an answer-in-interpleader. Perhaps, by reason of the BOC's denomination of its claim as a "compulsory-counterclaim" and the PDB's failure to fully appreciate the RTC's order granting the "BSP's motion for interpleader" (with the PDB's conformity), the PDB mistakenly treated the BOC's claim as a "permissive counterclaim" which necessitates the payment of docket fees.

As the preceding discussions would show, however, the BOC's "claim" - *i.e.*, its assertion of ownership over the CB bills – is in reality just that, a "claim" against the stakeholder and not as a "counterclaim,"[144] whether compulsory[145] or permissive. It is only the BOC's alternative prayer (for the PDB to deliver to the BOC, as the buyer in the April 15 transaction and the ultimate successor-in-interest of the buyer in the April 19 transaction, either the original subjects of the sales or the value thereof plus whatever income that may have been earned *pendente lite*) and its prayer for damages that are obviously compulsory counterclaims against the PDB and, therefore, does not require payment of docket fees.[146]

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144 Section 6, Rule 6, precisely defines a counterclaim as a "claim which a defending party may have ***against*** an opposing party." In an interpleader suit, while the defendants are asserting conflicting claims against one another over "the same subject matter," in the ultimate, the prevailing party actually asserts it against the complainant-in-interpleader because he is the stakeholder.

145 See Rule 6, Section 7.

146 When BOC filed its *Answer with Compulsory Counterclaim*, the effective rule then was A.M. No. 00-2-01-SC (March 1, 2000), which does not require payment of docket fees for compulsory counterclaims. Effective August 16, 2004, however, under Section 7, Rule 141, as amended by A.M. No. 04-2-04-SC, docket fees are now required to be paid even in compulsory counterclaim or cross-claims. See *Korea Technologies Co., Ltd. v. Lerma*, G.R. No. 143581, January 7, 2008, 542 SCRA 1, 16-17.

The PDB takes a contrary position through its insistence that a compulsory counterclaim should be one where the presence of third parties, of whom the court cannot acquire jurisdiction, is not required. It reasons out that since the RCBC and All Asia (the intervening holders of the CB bills) have already been dropped from the case, then the BOC's counterclaim must only be permissive in nature and the BOC should have paid the correct docket fees.

We see no reason to belabor this claim. Even if we gloss over the PDB's *own* conformity to the dropping of these entities as parties, the BOC correctly argues that a remedy is provided under the Rules. Section 12, Rule 6 of the Rules of Court reads:

> SEC. 12. Bringing new parties. – When the presence of parties other than those to the original action is required for the granting of complete relief in the determination of a counterclaim or cross-claim, the court shall order them to be brought in as defendants, if jurisdiction over them can be obtained.

Even then, the strict characterization of the BOC's counterclaim is no longer material in disposing of the PDB's argument based on non-payment of docket fees.

When an action is filed in court, the complaint must be accompanied by the payment of the requisite docket and filing fees by the party seeking affirmative relief from the court. It is the filing of the complaint or appropriate initiatory pleading, accompanied by the payment of the prescribed docket fee, that vests a trial court with jurisdiction over the claim or the nature of the action.[147] However, the non-payment of the docket fee at

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[147] *Fedman Development Corporation v. Agcaoili*, G.R. No. 165025, August 31, 2011, 656 SCRA 354, 362; and *Ungria v. Court of Appeals*, G.R. No. 165777, July 25, 2011, 654 SCRA 314, 325, citing *Tacay v. RTC of Tagum, Davao del Norte,* G.R. Nos. 88075-77, December 20, 1989, 180 SCRA 433; and *Sun Insurance Office, Ltd. v. Asuncion*, 252 Phil. 280 (1989).

the time of filing does not automatically cause the dismissal of the case, so long as the fee is paid within the applicable prescriptive or reglementary period, especially when the claimant demonstrates a willingness to abide by the rules prescribing such payment.[148]

In the present case, considering the lack of a clear guideline on the payment of docket fee by the claimants in an interpleader suit, compounded by the unusual manner in which the interpleader suit was initiated and the circumstances surrounding it, we surely *cannot* deduce from the BOC's mere failure to specify in its prayer the total amount of the CB bills it lays claim to (or the value of the subjects of the sales in the April 15 and April 19 transactions, in its alternative prayer) an intention to defraud the government that would warrant the dismissal of its claim.[149]

At any rate, regardless of the nature of the BOC's "counterclaims," for purposes of payment of filing fees, ***both* the BOC and the PDB,** properly as defendants-in-interpleader, must be assessed the payment of the correct docket fee arising from their respective *claims*. The seminal case of *Sun Insurance Office, Ltd. v. Judge Asuncion*[150] provides us guidance in the payment of docket fees, to wit:

> 1. x x x Where the filing of the initiatory pleading is not accompanied by payment of the docket fee, the court may allow payment of the fee within a reasonable time but in no case beyond the applicable prescriptive or reglementary period.
>
> 2. The same rule applies to permissive counterclaims, third-party claims and similar pleadings, which shall not be considered filed until and unless the filing fee prescribed therefor is paid. The court may also allow payment of said fee within a reasonable time but also in no case beyond its applicable prescriptive or reglementary period. [underscoring ours]

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148 *Fedman Development Corporation v. Agcaoili*, *supra*, at 362-363.
149 *Manchester Development Corporation v. Court of Appeals*, 233 Phil. 579, 585 (1987).
150 252 Phil. 280, 291 (1989).

This must be the rule considering that Section 7, Rule 62 of which reads:

> SEC. 7. Docket and other lawful fees, costs and litigation expenses as liens. – The docket and other lawful fees paid by the party who filed a complaint under this Rule, as well as the costs and litigation expenses, shall constitute a lien or charge upon the subject matter of the action, unless the court shall order otherwise.

only pertain to the docket and lawful fees to be paid by the one who initiated the interpleader suit, and who, under the Rules, actually "claims no interest whatever in the subject matter." By constituting a lien on the subject matter of the action, Section 7 in effect only aims to actually compensate the complainant-in-interpleader, who happens to be the stakeholder unfortunate enough to get caught in a legal crossfire between two or more conflicting claimants, for the faultless trouble it found itself into. Since the defendants-in-interpleader are actually the ones who make a claim - only that it was extraordinarily done through the procedural device of interpleader - then to them devolves the duty to pay the docket fees prescribed under Rule 141 of the Rules of Court, as amended.[151]

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[151] Section 7, Rule 141 of the Rules of Court, as amended by A.M. No. 00-2-01-SC (March 1, 2000), the effective Rule at the time the RTC granted the BSP's motion to interplead and required the PDB and the BOC to assert their claims, reads:

> SEC. 7. *Clerks of Regional Trial Courts*.- (a) For filing an action or a permissive counterclaim or money claim against an estate not based on judgment, or for filing with leave of court a third-party, fourth-party, etc. complaint, or a complaint in intervention, and for all clerical services in the same, **if the total sum claimed**, exclusive of interest, or the stated value of the property in litigation, **is**:
>
> 1. Less than ₱100,000.00 …….. ₱ 500.00
> 2. ₱100,000.00 or more but less than ……...800.00 ₱150,000.00
> 3. ₱150,000.00 or more but less than ……..……1,000.00 ₱200,000.00
> 4. ₱200,000.00 or more but less than ……..……1,500.00 ₱250,000.00
> 5. ₱250,000.00 or more but less than ……..……1,750.00 ₱300,000.00
> 6. ₱300,000.00 or more but less than ……..……2,000.00 ₱350,000.00

The importance of paying the correct amount of docket fee cannot be overemphasized:

> The matter of payment of docket fees is not a mere triviality. These fees are necessary to defray court expenses in the handling of cases. Consequently, in order to avoid tremendous losses to the judiciary, and to the government as well, the payment of docket fees cannot be made dependent on the outcome of the case, except when the claimant is a pauper-litigant.[152]

WHEREFORE, premises considered the consolidated **PETITIONS are GRANTED**. The Planters Development Bank is hereby **REQUIRED** to file with the Regional Trial Court its comment or answer-in-interpleader to Bank of Commerce's *Amended Consolidated Answer with Compulsory Counterclaim*, as previously ordered by the Regional Trial Court. The Regional Trial Court of Makati City, Branch 143, is hereby **ORDERED** to assess the docket fees due from Planters Development Bank and Bank of Commerce and order their payment, and to resolve with **DELIBERATE DISPATCH** the parties' conflicting claims of ownership over the proceeds of the Central Bank bills.

The Clerk of Court of the Regional Trial Court of Makati City, Branch 143, or his duly authorized representative is hereby **ORDERED** to assess and collect the appropriate amount of docket fees separately due the Bank of Commerce and Planters Development Bank as conflicting

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7. ₱350,000.00 or more but not more than ₱400,000.00 ……2,250.00
8. For each ₱1,000.00 in excess of ₱400,000.00 ……10.00

152 *Emnace v. Court of Appeals*, 422 Phil. 10, 22.

claimants in Bangko Sentral ng Pilipinas' interpleader suit, in accordance with this decision.

SO ORDERED.

ARTURO D. BRION
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO
Associate Justice
Chairperson

LUCAS P. BERSAMIN
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice