Republic of the Philippines
Supreme Court
Baguio City

SECOND DIVISION

STANDARD CHARTERED BANK, PHILIPPINE BRANCH, Petitioner, *- versus -* **PHILIPPINE INVESTMENT TWO (SPV-AMC), INC., PHILIPPINE INVESTMENT ONE (SPV-AMC), INC., and MRM ASSET HOLDINGS 2, INC.,** Respondents, x----------x	**G.R. Nos. 216608 & 216625**
PHILIPPINE INVESTMENT TWO (SPV-AMC), INC., Petitioner, *- versus -* **STANDARD CHARTERED BANK, REPRESENTED BY DUNCAN VAN DER FELTZ, AND ATTY. PATRICIA-ANN T. PRODIGALIDAD,** Respondents.	**G.R. Nos. 216702-03** **Present:** LEONEN, *J.*, Chairperson, LAZARO-JAVIER, LOPEZ, M., LOPEZ, J., and KHO, JR., *JJ.* **Promulgated:** APR 26 2023

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D E C I S I O N

LOPEZ, J., *J.*

This Court resolves the consolidated Petitions for Review on *Certiorari*[1] under Rule 45 of the Rules of Court, seeking to reverse and set

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[1] *Rollo* (G.R. Nos. 216608 & 216625), pp. 11–211 and *rollo* (G.R. Nos. 216702-03), pp. 58–96.

aside the Decision[2] and Resolution[3] of the Court of Appeals (*CA*), which denied the (1) Petition for Review of Standard Charter Bank Philippines (*SCB Philippines*) from the Joint Resolution of the Regional Trial Court (*RTC*) of Branch 149, Makati City in SP Case No. M-6683, and the (2) Petition for Indirect Contempt[4] filed by the Philippine Investment Two (SPV-AMC), Inc. (*PI Two*).

Facts

Standard Chartered Bank (*SCB*) is a foreign banking institution incorporated under the laws of England with branches, affiliates, and representative offices internationally. SCB is duly licensed to do business in the Philippines through its Philippine Branch, SCB Philippines.[5]

SCB, through its specific branches and affiliates, provided a group financial package to Lehman Brothers Holdings, Inc. (*LBHI*) and a number of its foreign affiliates.[6]

Between 2003 and 2007, SCB, through its New York Branch (*SCB New York*), and LBHI, as Principal Affiliate of foreign affiliate borrowers, which included PI Two, executed several agreements (*group facilities agreement*). Under the group facilities agreement, SCB New York undertook to make available to LBHI and a number of its foreign affiliates, financial facilities in the form of loans extended by SCB's various branches and affiliates.[7]

It was through the group facilities agreement that PI Two, an LBHI affiliate in the Philippines, was able to obtain loans from SCB Philippines, in the total principal amount of PHP 819 million (*PIT Loan*). Aside from PI Two, there were other affiliates of LBHI in the Philippines that secured separate loans from SCB Philippines under the group facilities agreement.[8]

LBHI executed guarantees (*LBHI guarantee*) as security for the loans extended to its foreign affiliates. Pursuant to the terms of the LBHI guarantee,

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2 *Rollo* (G.R. Nos. 216608 & 216625), pp. 204–238 and *rollo* (G.R. Nos. 216702-03), pp. 10–43. The May 26, 2014 Decision in CA-G.R. SP Nos. 131652 & 132088 was penned by Associate Justice Rebecca De Guia-Salvador, concurred in by Associate Justices Samuel H. Gaerlan (now a member of this Court) and Victoria Isabel A. Paredes of the Former Special Third Division, Court of Appeals, Manila.

3 *Rollo* (G.R. Nos. 216608 & 216625), pp. 241–250 and *rollo* (G. R. Nos. 216702-03), pp. 46–55. The January 27, 2015 Resolution in CA-G.R. SP Nos. 131652 & 132088 was penned by Associate Justice Rebecca De Guia-Salvador, concurred in by Associate Justices Samuel H. Gaerlan (now a member of this Court) and Victoria Isabel A. Paredes of the Former Special Third Division, Court of Appeals, Manila.

4 *Rollo* (G. R. Nos. 216702-03), pp. 150–167.

5 *Rollo* (G.R. Nos. 216608 & 216625), p. 30.

6 *Id.* at 32.

7 *Id.*

8 *Id.*

LBHI undertook to pay all loans, advances, and other credit facilities or financial accommodations, when due, whether at maturity, by declaration, demand or otherwise, including interest and charges, of each of the LBHI affiliate borrowers under the group facilities agreement which included the PIT Loan.[9]

On September 12, 2008, LBHI executed a pledge agreement in favor of SCB New York. Under the pledge agreement, LBHI represented that it had "good and marketable title" to, and thereby pledged, the following debt instruments to SCB New York: (1) notes issued by HD Supply, Inc. (HD supply notes) with a face value of USD 81,455,477.00; and (2) LBHI's interest in loans amounting to USD 87,189,447.00 made to Idearc, Inc. (*Idearc*) (collectively, the *pledged collaterals*).[10]

On September 15, 2008, LBHI filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code (LBHI *bankruptcy case*) with the US Bankruptcy Court for the Southern District of New York (*US bankruptcy court*).[11]

On September 16, 2008, the US bankruptcy court issued a stay order preventing LBHI's creditors from, among other things, enforcing or perfecting their claims against, foreclosing on security provided by, and appropriating property of, LBHI, while the LBHI bankruptcy case is pending.[12]

Under Section I(5)(d) of each of the promissory notes executed by PI Two, as required under the group facilities agreement, the occurrence of any material change in the financial circumstances or conditions of PI Two which, in the reasonable opinion of SCB Philippines, would adversely affect the ability of PI Two to perform its obligations under the promissory notes, shall entitle SCB Philippines to declare the loan of PI Two and all and any accrued interest to be due and demandable without necessity of notice or demand.[13]

When LBHI filed for bankruptcy, SCB Philippines made a demand upon PI Two for the payment of its loan and accrued interest amounting to PHP 825,063,286.11 as of September 2008. PI Two failed to comply with SCB Philippines' aforementioned demand.[14]

On September 22, 2008, the Metropolitan Bank and Trust Company (*Metrobank*), a creditor of PI Two, initiated rehabilitation proceedings with

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9 *Id.* at 32–33.
10 *Id.* at 33–34.
11 *Id.* at 34.
12 *Id.* at 35.
13 *Id.* at 35–36.
14 *Id.* at 36.

respect to PI Two before the RTC, acting as a rehabilitation court.[15]

The RTC issued a Stay Order which: (1) stayed the enforcement of all claims against PI Two; (2) set the initial hearing on the Petition for Rehabilitation on November 11, 2008; and (3) directed the parties to file their respective verified comments on the Petition for Rehabilitation filed by Metrobank.[16]

SCB Philippines filed its Comment on the Petition for Rehabilitation which stated, among others, that: (1) SCB provided a group financial package to LBHI and its foreign affiliates, including PI Two; and (2) pursuant to the group financial package, SCB Philippines extended to PI Two loans in the principal amount of PHP 819 million.[17]

On December 14, 2009, the RTC issued a Resolution approving the rehabilitation plan dated September 1, 2008 as recommended by the rehabilitation receiver with certain modifications.[18] As approved by the RTC, PI Two would pay the PIT Loan within a period of six years with a grace period of one year.[19]

In accordance with the Rehabilitation Plan, SCB Philippines received PHP 124,159,760.95 from PI Two thereby reducing its principal debt to PHP 694,840,239.05. In addition, SCB Philippines received a total of PHP 109,469,911.93, as and by way of interest. SCB Philippines was also allowed to manage and control the affairs of PI Two, having been appointed as part of its three-person management committee.[20]

During the rehabilitation proceedings, controversy arose when PI Two alleged that SCB Philippines concealed from the RTC that it was a secured creditor having in its possession the pledged collaterals. PI Two further alleged that the pledged collaterals were delivered by LBHI to SCB Philippines pursuant to an agreement denominated as a pledge agreement dated September 12, 2008, which was intended to secure the group facilities agreement. According to PI Two, SCB Philippines then appropriated the pledged collaterals.[21]

PI Two further alleged that SCB Philippines' possession of the above pledged collaterals was concealed in the rehabilitation proceedings, and that the HD supply notes alone had a face value of USD 112,917,096.00. Further,

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15 *Id.*
16 *Id.* Stay Order dated September 23, 2008.
17 *Id.* at 36–37. Comment dated October 30, 2008.
18 *Id.* at 37.
19 *Id.* at 1907.
20 *Id.*
21 *Id.* at 1908.

SCB Philippines allegedly claimed in its proof of claim before the US bankruptcy court that LBHI's and its affiliates' total obligation under the group facilities agreement was USD 25,889,954.32.[22]

As a result, PI Two filed a Motion before the RTC praying that SCB Philippines be directed to disclose the status of its claim against LBHI, particularly whether SCB Philippines was able to enforce and claim on collaterals subject of the pledge agreement.[23]

In support of PI Two's Motion, the rehabilitation receiver also filed a Comment (On the Standard Chartered Bank Proof of Claim) recommending that SCB Philippines be ordered to provide the information requested by PI Two. The rehabilitation receiver stressed that PI Two should be notified about developments with respect to the proof of claim and its status, in order to prevent SCB Philippines from claiming "payment for the same credit twice."[24]

In response, SCB Philippines stated that: (i) no claims had yet been granted by the US bankruptcy court; (ii) not all collaterals pledged under the Pledge Agreement were delivered to it; (iii) the same were already devalued on account of the LBHI bankruptcy case; and (iv) the collaterals could not be foreclosed upon on account of the Stay Order.[25]

In a Resolution dated May 4, 2011, the RTC resolved PI Two's Motion noting that since "certain collaterals under the [p]ledge [a]greement were indeed delivered by Lehman to SCB... proper disclosure of the nature, status, and present value of the collaterals... becomes necessary." Thus, the RTC ordered SCB Philippines to submit a list of the collaterals that had been delivered to SCB Philippines by LBHI, stating the nature, status, and value thereof.[26]

In compliance, SCB Philippines submitted a Certification from Marc Chail, the area head, Americas, group special assets management of SCB, stating that the following collaterals were pledged to SCB by LBHI: USD 81,455,477.00 of HD Supply Notes; and LBHI's interest in USD 87,189,447.00 of loans made to Idearc. SCB Philippines further disclosed that LBHI delivered USD 81,455,477.00 of HD supply notes to SCB's depository trust & clearing (*DTC*) account. SCB Philippines also revealed that the HD supply notes had a face value of USD 112,917,096.00.[27]

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22 *Id.* at 1908–1909.
23 *Id.* at 1909. Motion dated December 28, 2010.
24 *Id.*
25 *Id.* at 208–209.
26 *Id.* at 209.
27 *Id.* at 1910–1911.

MRM Asset Holdings 2, Inc. (*MRMAH2*) filed an Omnibus Motion to remove SCB Philippines from PI Two's management committee and to suspend further payments to SCB Philippines noting that the latter was already sufficiently secured by the pledged collaterals.[28]

SCB Philippines filed an Opposition in response to MRMAH2's Omnibus Motion arguing that the mere existence of a security, before foreclosure, does not assure full payment and does not extinguish the obligation. SCB Philippines stated that it had not foreclosed on the security because of the Stay Order issued by the US Bankruptcy Court. SCB Philippines also alleged that the face value of the HD supply notes is different from its market value and the latter is much lower and even declines.[29]

Acting on MRMAH2's Omnibus Motion, the RTC issued a Resolution dated September 26, 2011 removing SCB Philippines from the management committee. It also stated that SCB Philippines had not been transparent regarding the collaterals it was holding and was constrained to reveal the same only after it was compelled under the Order dated May 4, 2011. However, it required SCB Philippines to "surrender and release" proportionately, portions of the collaterals every time payment is made by PI Two under the rehabilitation plan, with PI Two holding the said collaterals in trust for the real owners of the credit.[30]

LBHI and Lehman Commercial Paper, Inc. (*LCPI*), an affiliate of LBHI, filed before the US bankruptcy court an adversary complaint and claims objection (*adversary complaint*) against SCB Philippines and Standard Charter Bank Korea (*SCB Korea*). LBHI prayed for the nullification of the pledge agreement alleging that the grant by LBHI to SCB Philippines of the collateral under the pledge agreement, and the obligations incurred by LBHI thereunder, was among others, a void conveyance under New York law as LBHI did not own the collateral and LCPI, the identified owner thereof, did not obtain any consideration under the pledge agreement.[31]

SCB Philippines filed a Manifestation before the RTC informing the parties to the rehabilitation proceedings that it had settled the adversary complaint filed by LBHI, as well as other claims in the bankruptcy proceedings through a so-called Stipulation, Agreement and Order Among LBHI, LCPI, SCB, and SCB Korea Regarding Settlement of Adversary Proceeding and Allowance of Certain Claims (*Stipulation, Agreement and Order*) dated January 22, 2013. The stipulation, agreement and order was approved by the US bankruptcy court on January 31, 2013.[32]

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28 *Id.* at 209. Omnibus Motion dated July 15, 2011.
29 *Id.* Opposition dated August 31, 2011.
30 *Id.* at 209–210.
31 *Id.* at 39. Adversary Complaint dated May 25, 2012.
32 *Id.* at 40. Manifestation dated January 23, 2013.

Then, the rehabilitation receiver submitted before the RTC a Comment on Standard Chartered Bank's Submission dated February 25, 2013 of the Stipulation, Agreement and Order, stating, among other things, that:

> "4. The above paragraph clearly shows the intention of the parties for SCB to be paid under the approved payment plan by the (US Bankruptcy Court). Having entered into a settlement with LBHI and having been paid a catch-up amount, as well as being assured of payment of other claims because the claim has been allowed in the US Bankruptcy Court, SCB has lost its standing before this Honorable Court and shall now have to collect, by its own choice, from LBHI in the (US Bankruptcy Court). This is further emphasized by Paragraph 8 of Annex "B" where LBHI shall be "entitled to its rights of subrogation relating to the Proofs of Claim as set forth in the Guarantee of the Plan.
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> x x x
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> 6. Undersigned, therefore, recommends that the claim of SCB now pending before this Honorable Court should be dismissed. In addition, there is an amount in escrow in Metrobank in the name of the undersigned Receiver in the amount of PHP34,511,095.05. Undersigned recommends that this amount now be released to Philippine Investment Two (SPV-AMC), Inc."[33]

By virtue of the foregoing, PI Two filed an Urgent Motion dated March 6, 2013 praying for the modification of the rehabilitation plan to remove SCB Philippines from the list of creditors and to hold that SCB should return to PI Two any and all amounts it received pursuant to the rehabilitation plan, including interest.[34] PI Two argued as follows:

> PI Two's debt to SCB was extinguished based on the following alternative grounds: a) The Stipulation, Agreement and Order amounts to a sale of the thing pledged which extinguishes the principal obligation; b) LBHI, as a solidary debtor to PI Two, had already paid in full all of SCB Philippine's claims under the Group facilities agreement by transferring its ownership over the HD Supply Notes to SCB Philippines.[35]

SCB Philippines filed its Opposition [to Philippine Investment Two (SPV-AMC), Inc.'s Urgent Motion dated March 6, 2013] dated May 27, 2013, explaining, among others, that PI Two's repeated attempts to apply Philippine law in interpreting the Stipulation, Agreement and Order, the LBHI Guarantee and the LBHI Pledge Agreement is clearly erroneous. According to SCB Philippines, the Stipulation, Agreement and Order, the LBHI guarantee, and the LBHI pledge agreement expressly stated to be governed by New York law and should then be interpreted in accordance with New York law. SCB further contends that in accordance with New York law, the stipulation, agreement, and order did not and would not extinguish PI Two's obligation to SCB

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33 *Id.* at 210–211.
34 *Id.* at 1918.
35 *Id.* at 1918–1919.

Philippines to repay its loan. Thus, SCB Philippines should continue to be paid under the rehabilitation plan until it has received full payment on the loan of PI Two.[36]

Meanwhile, on March 19, 2013, SCB Philippines received MRMAH2's Ugent Motion to release money in escrow praying that the amount of PHP 34,500,000.00 which was held in a special demand account in the name of the rehabilitation receiver for the account of SCB Philippines, be ordered released and returned to PI Two immediately, and the amount of PHP 124,159,760.95 with interest payments in the additional amount of PHP 109,469,911.93 consisting of the amount already paid by PI Two to SCB Philippines be ordered returned to PI Two immediately.[37]

On even date, SCB Philippines also received PI One's Motion to Order Rehabilitation Receiver to release escrow account dated March 14, 2013, praying that the RTC "direct the [r]ehabilitation [r]eceiver to release in favor of PI Two, the money held in escrow in the sum of [PHP] 34,500,000.00, plus interest, representing the approximate amount deposited in the special demand account in the name of the rehabilitation receiver for the account of SCB Philippines."[38]

In response, SCB Philippines filed its Consolidated Opposition to MRMAH2's Urgent Motion and PI One's Motion (Consolidated Oppoosition). The Consolidated Opposition, among others, explained that the execution, effectivity and/or operation of the stipulation, agreement and order, viewed through the lens of the relevant New York or Philippine law, did not extinguish the PIT Loan.[39]

Meanwhile, Metrobank, which was also a creditor of PI Two, filed a Comment which similarly prayed for the removal of SCB Philippines as a creditor of PI Two, and that the amounts incorrectly allotted as PI Two's payment to SCB Philippines be applied to PI Two's debt to Metrobank.[40]

On August 30, 2013, the RTC issued the Joint Resolution granting: (1) the Urgent Motion of PI Two dated March 6, 2013; (2) PI One's Motion to Order Rehabilitation Receiver to release escrow amount dated March 14, 2013; and (3) MRMAH2's Urgent Motion to release money in escrow dated March 14, 2013. The dispositive portion of the Joint Resolution reads:

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36 *Id.* at 50. Opposition dated May 27, 2013.
37 *Id.* at 49.
38 *Id.* at 49–50.
39 *Id.* at 51.
40 *Id.* at 1919. Comment dated April 15, 2013.

> WHEREFORE, all said and considered, this court hereby grants the urgent motion filed by PI Two, as well as PI One's and MRMAH2's motions to release escrow account in the sum of PhP34,511,095.05 in favor of PI Two. Moreover, Standard Chartered Bank's claim against PI Two in this Rehabilitation Proceedings is now deemed excluded, and Standard Chartered Bank is ordered to return the amounts it already received under the Rehabilitation Plan in the sum of Php233,629,672.88 to PI Two.
>
> Finally, the approved Rehabilitation Plan dated December 14, 2009 is hereby amended to the effect that creditor Standard Chartered Bank is excluded from the list of creditors. Hence, the distribution of available cash for payment by the debtor shall be allocated to the remaining creditors.
>
> SO ORDERED.[41]

The RTC held that "based on the recent developments that have transpired in the US [b]ankruptcy [c]ourt on the allowed SCB guarantee claim, SCB Philippines has been paid and will be paid under future distributions under the Lehman Plan, on account of SCB's claims in the rehabilitation proceedings." The RTC also noted the rehabilitation receiver's comment that under the Stipulation, Agreement, and Order, the parties intended for SCB to be paid under the approved payment plan of the US bankruptcy court, and that SCB shall have to collect from LBHI in the US bankruptcy court. The RTC found that under the two promissory notes (Nos. 93137901039 and 93137901040), the bases of SCB Philippines' claims against PI Two, the same shall be governed by and construed in accordance with Philippine law. The RTC also held that SCB Philippines' opposition to PI Two's argument that its obligation to SCB Philippines has been extinguished calls for examination of factual evidence as to the parties' agreements before the US bankruptcy court, as well as whether foreign or Philippine law governs. Further, the RTC held that issues related to the Stipulation, Agreement, and Order are adversarial in nature, which are beyond the mandate of the rehabilitation court; thus, a separate proceeding is proper before another court.[42]

Subsequently, PI One and MRMAH2 filed their Motion for Execution (of the Joint Resolution dated August 30, 2013), and Motion for Execution (re: Joint Resolution dated 30 August 2013), respectively, before the RTC. Both motions for execution prayed for the immediate execution and enforcement of the Joint Resolution dated August 30, 2013, and the issuance of a writ of execution. The RTC then set the hearing for both motions for execution on September 10, 2013.[43]

Aggrieved by the Joint Resolution, SCB Philippines filed a Petition for Review with application for the issuance of a Temporary Restraining Order

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41 *Id.* at 205.

42 *Id.* at 212.

43 *Rollo* (G.R. No. 216702-03), p. 63. Motion for Extension and Motion for Execution both dated September 5, 2013.

(*TRO*) and Temporary Mandatory Order (*TMO*) before the CA, which was subsequently docketed as CA-G.R. SP No. 131652. In its Petition, SCB Philippines sought for, among others, the issuance of injunctive relief against the immediate execution of the Joint Resolution and the subsequent reversal of the same.[44]

On the same day and after the hearing on the motions for execution before the RTC had already ended, SCB Philippines filed a Manifestation and Urgent Motion for resolution of the application for the *ex-parte* issuance of a TRO and TMO before the CA. SCB Philippines reiterated its prayer for the immediate issuance of a TRO and TMO, and claimed that the execution of the Joint Resolution was extremely imminent.[45]

On September 12, 2013, the CA issued a Resolution granting the application for TRO of SCB Philippines.[46]

Subsequently, PI Two filed a Petition for indirect contempt before the CA which was docketed as CA-G.R. SP No. 132088.[47] PI Two claimed that SCB Philippines, willfully and deliberately misled the CA into issuing a TRO when there was no urgency or necessity to do so. PI Two alleged that, contrary to the representations made by SCB Philippines in its manifestation and urgent motion filed before the appellate court, the RTC made it clear during the hearing on the Motion for Execution that the execution of the Joint Resolution is not imminent considering that it: (1) granted SCB Philippines' request for a period of seven days to submit its comment on the motions for execution of PI One and MRMAH2; (2) directed PI Two and SCB Philippines to undergo judicially mediated settlement talks to resolve the disagreement and to obviate forcible execution process; (3) and directed the counsel for SCB Philippines, to submit, not later than 5:00 p.m. of September 2013, the names and the available dates of SCB Philippines' officers who would attend the judicially mediated talks.[48]

The CA later consolidated the Petition for indirect contempt filed by PI Two with the Petition for Review filed by SCB Philippines.[49]

The CA thereafter rendered the assailed Decision denying both the Petition for Review filed by SCB Philippines and the Petition for indirect contempt filed by PI Two. The dispositive portion of the Decision states:[50]

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44 *Rollo* (G.R. Nos. 216608 & 216625), pp. 58–59. Petition for Review with application for the issuance of a Temporary Restraining Order dated September 10, 2013.
45 *Id.* at 59–60.
46 *Id.* at 60.
47 *Rollo* (G. R. Nos. 216702-03), pp. 150–167.
48 *Id.* at 64.
49 *Rollo* (G.R. Nos. 216608 & 216625), p. 67.
50 *Id.* at 238.

> **WHEREFORE**, the foregoing premises considered, the petition for review filed by Standard Chartered Bank in **CA-G.R. SP. No. 131652** is hereby **DENIED** and the assailed Joint Resolution dated August 30, 2013 of the Regional Trial Court of Makati (Branch 149), in SP. Proc. (Case) No. M-8863 is hereby **AFFIRMED**.
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> The petition for indirect contempt filed by PI Two in **CA-G.R. SP. No. 132088** is hereby **DENIED**.
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> **SO ORDERED**. (Emphasis in the original)

In CA-G.R. SP No. 131652, the CA ruled that the "sale" of the pledged collaterals by SCB New York had the effect of extinguishing PI Two's obligation under Article 2115 of the Civil Code.[51] However, SCB Philippines has the right to pursue simultaneously claims before the US bankruptcy court and the RTC.[52]

In CA-G.R. SP No. 132088, the CA ruled that it did not see any malice nor deliberate intent on the part of SCB Philippines to withhold from it, information on the alleged judicially mediated settlement talks and the RTC's disinclination to enforce the Joint Resolution.[53]

Both SCB Philippines and PI Two filed a Motion for Partial Reconsideration of the aforesaid Decision,[54] but both were denied by the appellate court in its Resolution,[55] the dispositive portion of which states:

> **WHEREFORE**, the foregoing premises considered, the motion for partial reconsideration filed by Standard Chartered Bank in **CA-G.R. SP. No. 131652** (Petition for Review) of the Court's consolidated Decision dated May 26, 2014 is **DENIED**.
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> The motion for partial reconsideration filed by Philippine Investment (SPV-AMC), Inc. in **CA-G.R. SP. No. 132088** (Petition for Indirect Contempt) also of the Court's consolidated Decision dated May 26, 2014 is **DENIED**.
>
> **SO ORDERED**.[56] (Emphasis in the original)

Dissatisfied with the ruling of the CA upholding the Joint Resolution, SCB Philippines filed a Petition for Review on *Certiorari* docketed as G.R. Nos. 216608 and 216625.

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51 *Id.* at 231
52 *Id.* at 229–231.
53 *Id.* at 236.
54 *Id.* at 241.
55 *Id.* at 241–250.
56 *Id.* at 249.

In G.R. Nos. 216608 & 216625, SCB Philippines argues that the CA erred when it upheld the Joint Resolution considering that:

1. The LBHI Guarantee, LBHI Pledge Agreement, and Stipulation, Agreement and Order all expressly stipulate that they shall be governed by New York law. Thus, only New York law, the governing law expressly stated in these agreements, and not Philippine law, should be applied in determining the legal effects of the LBHI Guarantee, LBHI Pledge Agreement, and Stipulation, Agreement and Order;

2. The PIT Loan has not been extinguished upon the execution of the Stipulation, Agreement and Order because the remittance of the Pledged Collaterals to LCPI does not constitute a sale, transfer or other "exercise of ownership" on the part of SCB Philippines resulting in the PIT Loan being extinguished. Thus, Article 2115 of the Civil Code, which speaks of the extinguishment of the principal obligation when the thing pledged is sold, finds no application as there was no sale of the Pledged Collaterals from SCB Philippines to LCPI; and

3. The Joint Resolution is null and void for failing to state the facts and law upon which the conclusions therein were based in violation of SCB Philippines' right to due process and deprived it of an effective appeal process.[57]

On the other hand, PI Two, PI One, and MRMAH2 argue that the CA committed no error when it denied SCB Philippines' Petition for Review since:

1. The Promissory Notes executed by PI Two in favor of SCB Philippines are the source of SCB's cause of action against PI Two in the Rehabilitation Proceedings, and said Promissory Notes that expressly state that the same shall be governed and construed in accordance with Philippine law. Accordingly, Article 2115 of the Civil Code finds application in this case;

2. SCB Philippines had taken ownership of the Pledged Collaterals as proven, among others, by SCB Philippines' deposit of the HD Bonds in its Depository Trust Company (*DTC*) Account, by LBHI's institution of the Adversary Complaint, and by SCB Philippines' redemption of the HD Supply Notes, the proceeds of which it received for its own account. The appropriation of the Pledged Collaterals constituted a sale of the Pledged Collaterals,

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[57] *Id.* at 76–180.

which under Article 2115 of the Civil Code, extinguishes the principal obligation; and

3. The Joint Resolution contains sufficient factual and legal bases to justify the results reached.[58]

Equally disgruntled, PI Two filed before this Court a Petition for Review on *Certiorari*, subsequently docketed as G.R. Nos. 216702-03, assailing the CA's denial of its Petition for indirect contempt

In G.R. Nos. 216702-03, PI Two submits that SCB Philippines deliberately concealed from the CA essential information which shows that there is no extreme urgency for the issuance of TRO and TMO. According to PI Two, after the hearing on the motions for execution, SCB Philippines was already fully aware that the execution of the Joint Resolution was no longer imminent because the RTC already directed PI Two and SCB Philippines to undergo judicially mediated settlement talks to resolve the disagreement and to obviate forcible execution process. However, when PI Two filed its manifestation and urgent motion after the hearing on the motions for execution, it still claimed that the execution of the Joint Resolution was extremely imminent, nor did it make any subsequent manifestation before the appellate court regarding the developments during the hearing on the motion for execution. PI Two avers that SCB Philippines' failure to relay to the CA the developments which occurred during the hearing on the motions for execution before the RTC constitutes concealment of information and such concealment degrades the administration of justice, which in turn constitutes indirect contempt under Sections 3(c) and 3(d) of Rule 71 of the Rules of Court.[59]

On the other hand, SCB Philippines prays for the denial of PI Two's Petition for Review on *Certiorari* considering that: (1) the CA's denial of the Petition for indirect contempt is tantamount to an acquittal that is final and unappealable; (2) the necessity for the issuance of the TRO remains despite the RTC's directive that SCB Philippines and PI Two undergo judicially mediated settlement talks; and (3) there was no concealment of information amounting to indirect contempt because of lack of intent on its part to impede, obstruct, and degrade the administration of justice.[60]

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58 *Id.* at 1834–1848, 1854–1869, and 1927–1931.
59 *Rollo* (G.R. Nos. 216702-03), pp. 73–94.
60 *Id.* at 723–751 and 1115–1148.

Issues

I.

Whether the Joint Resolution is null and void for failing to state the facts and law upon which the conclusions therein were based in violation of SCB Philippines' right to due process;

II.

Whether Philippine law finds application in settling the question of whether the PIT Loan was extinguished by the execution of the stipulation, agreement and order;

III.

Whether SCB Philippines' claims against PI Two had been extinguished upon the execution of the stipulation, agreement and order;

IV.

Whether the ruling of the CA denying PI Two's Petition for indirect contempt is tantamount to an acquittal that is already final and may no longer be appealed; and

V.

Whether or not SCB Philippines is guilty of indirect contempt.

This Court's Ruling

Whether the Joint Resolution is null and void for failing to state the facts and law upon which the conclusions therein were based in violation of SCB Philippines' right to due process

SCB Philippines claims that the CA gravely erred when it refused to nullify the Joint Resolution considering that the same failed to state the facts and law upon which the conclusions therein were based.[61] According to SCB Philippines, the CA tolerated, if not attempted to cure, a patent violation of the constitutional mandate under Article VIII, Section 14 of the Constitution, thereby violating its right to due process and depriving it of an effective appeal process.[62]

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61 *Rollo* (G.R. Nos. 216608 & 216625), pp. 160–173.

62 *Id.* at 174–180.

MRMAH2, PI One, and PI Two assert that SCB Philippines was effectively accorded due process considering that the RTC substantially complied with the requirements under the Constitution when it issued the assailed Joint Resolution. They likewise state that the Joint Resolution dealt satisfactorily with the facts surrounding and contained in the various pleadings and motions filed by the parties in the proceedings before the RTC.[63]

Article VIII, Section 14 of the Constitution provides:

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

In *Yao v. Court of Appeals*,[64] We laid down the rationale behind the above constitutional provision, as follows:

> Faithful adherence to the requirements of Section 14, Article VIII of the Constitution is indisputably a paramount component of due process and fair play. It is likewise demanded by the due process clause of the Constitution. The parties to a litigation should be informed of how it was decided, with an explanation of the factual and legal reasons that led to the conclusions of the court. The court cannot simply say that judgment is rendered in favor of X and against Y and just leave it at that without any justification whatsoever for its action. The losing party is entitled to know why he lost, so he may appeal to the higher court, if permitted, should he believe that the decision should be reversed. A decision that does not clearly and distinctly state the facts and the law on which it is based leaves the parties in the dark as to how it was reached and is precisely prejudicial to the losing party, who is unable to pinpoint the possible errors of the court for review by a higher tribunal. More than that, the requirement is an assurance to the parties that, in reaching judgment, the judge did so through the processes of legal reasoning. It is, thus, a safeguard against the impetuosity of the judge, preventing him from deciding *ipse dixit*. Vouchsafed neither the sword nor the purse by the Constitution but nonetheless vested with the sovereign prerogative of passing judgment on the life, liberty or property of his fellowmen, the judge must ultimately depend on the power of reason for sustained public confidence in the justness of his decision.
>
> Thus[,] the Court has struck down as void, decisions of lower courts and even of the Court of Appeals whose careless disregard of the constitutional behest exposed their sometimes cavalier attitude not only to their magisterial responsibilities but likewise to their avowed fealty to the Constitution.
>
> Thus, we nullified or deemed to have failed to comply with Section 14, Article VIII of the Constitution, a decision, resolution or order which:

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63 *Id.* at 1834–1836, 1860–1866 and 1957–1969.

64 398 Phil. 86 (2010) [Per J. Davide, Jr., First Division].

> contained no analysis of the evidence of the parties nor reference to any legal basis in reaching its conclusions; contained nothing more than a summary of the testimonies of the witnesses of both parties; convicted the accused of libel but failed to cite any legal authority or principle to support conclusions that the letter in question was libelous; consisted merely of one (1) paragraph with mostly sweeping generalizations and failed to support its conclusion of parricide; consisted of five (5) pages, three (3) pages of which were quotations from the labor arbiter's decision including the dispositive portion and barely a page (two [2] short paragraphs of two [2] sentences each) of its own discussion or reasonings; was merely based on the findings of another court sans transcript of stenographic notes; or failed to explain the factual and legal bases for the award of moral damages.

The Rules of Court, Rule 36, Section 1 likewise provides:

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

The Joint Resolution issued by the RTC ruled upon the exclusion of SCB Philippines' claim against PI Two in the rehabilitation proceedings and ordered it to return amounts it received under the rehabilitation plan, thus, We hold that the same standards laid down in Article VIII, Section 14 of the Constitution and Rules of Court, Rule 36, Section 1 should apply as the Joint Resolution constitutes a determinative pronouncement of SCB Philippines' rights as a creditor in the said proceedings.

A perusal of the Joint Resolution reveals that it has substantially complied with Article VIII, Section 14 of the Constitution and Rule 36, Section 1 of the Rules of Court. The Joint Resolution provides the following in its dispositive portion:

> WHEREFORE, all said and considered, this court hereby grants the urgent motion filed by PI Two, as well as PI One's and MRMAH2's motions to release escrow account in the sum of PhP34,511,095.05 in favor of PI Two. Moreover, Standard Chartered Bank's claim against PI Two in this Rehabilitation Proceedings is now deemed excluded, and Standard Chartered Bank is ordered to return the amounts it already received under the Rehabilitation Plan in the sum of Php233,629,672.88 to PI Two.
>
> Finally, the approved Rehabilitation Plan dated December 14, 2009 is hereby amended to the effect that creditor Standard Chartered Bank is excluded from the list of creditors. Hence, the distribution of available cash for payment by the debtor shall be allocated to the remaining creditors.

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SO ORDERED.[65]

The Joint Resolution adequately informs the parties of the factual and legal justifications for the above dispositive portion. Specifically, the Joint Resolution held that: (1) based on the recent developments that have transpired in the US Bankruptcy Court on the allowed SCB guarantee claim, SCB Philippines has been paid and will be paid in future distributions under the Lehman Plan; (2) the rehabilitation receiver's comment that under the Stipulation, Agreement and Order, the parties intended for SCB to be paid under the approved payment plan of the US bankruptcy court, and that SCB shall have to collect from LBHI in the US bankruptcy court; (3) under the two promissory notes, which are the basis of SCB Philippines' claims against PI Two, the same shall be governed by and construed in accordance with Philippine law; (4) SCB Philippines' opposition to PI Two's argument that its obligation to SCB Philippines has been extinguished calls for examination of factual evidence as to the parties' agreements before the US bankruptcy court, as well as whether foreign or Philippine law governs; and (5) issues related to the Stipulation, Agreement and Order are adversarial in nature, which are beyond the mandate of the rehabilitation court; thus, a separate proceeding is proper before another court.[66]

These sufficiently provide the factual and legal justifications of the dispositive portion of the Joint Resolution. It is enough that the Joint Resolution includes a clear and detailed explanation of the facts and legal principles that form the basis of the dispositive portion. This would be considered to have reasonably complied with the above legal requirements. As long as the resolution is supported by a discussion of the relevant facts and legal principles, as well as a clear and concise explanation of how these elements relate to the ruling being made, this would provide a transparent basis for the parties to be sufficiently informed as to why the court ruled the way it did and for the aggrieved party to be adequately informed of the bases of its appeal should it choose to do so.

Evidently, SCB Philippines has not been deprived of due process as it was adequately informed of the reasons why the Joint Resolution was issued against its favor. It went before the CA and now before this Court assailing the Joint Resolution based on grounds and issues that were raised therein. Had there been no substantial compliance with Article VIII, Section 14 of the Constitution, or Rule 36, Section 1 of the Rules of Court, SCB Philippines would not know the scope and extent of the issues that are appealable. The fact that it was able to narrowly outline its appeal based on matters ruled upon in the Joint Resolution belies its claim that the same does not contain sufficient factual and legal justifications to support the assailed Resolution.

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65 *Rollo* (G.R. Nos. 216608 & 216625), p. 205.
66 *Id.* at 212.

Whether Philippine law finds application in settling the dispute subject of this case

The case involves a choice of law problem because it involves parties from different jurisdictions and multiple contracts that are governed by different laws. In this case, the lender, *i.e.*, SCB Philippines, under the PIT Loan is a Philippine entity, but it is affiliated with a foreign entity, *i.e.*, SCB, which in turn is the party to the group facilities agreement, and is governed by the law of New York. The borrower, *i.e.*, PI Two, under the PIT Loan is also a Philippine entity, but it is affiliated with a foreign entity, *i.e.*, LBHI, which in turn is the party to the said group facilities agreement. The Promissory Notes giving rise to the PIT Loan, and which were issued pursuant to the group facilities agreement, are governed by Philippine law. The LBHI Guarantee and the LBHI pledge agreement, which support the principal obligations arising under the group facilities agreement, are governed by the law of New York. This means that there may be conflicts or discrepancies between the different contracts and the laws that govern them. In order to resolve these conflicts and ensure that the contracts are interpreted and enforced consistently, it may be necessary to determine which law should be applied to each contract. This is known as a choice of law problem.

In *Saudi Arabian Airlines (Saudia) v. Rebesencio*,[67] We laid down the following guidelines in dealing with choice of law problems in general:

> As to the choice of applicable law, we note that choice-of-law problems seek to answer two important questions: (1) [w]hat legal system should control a given situation where some of the significant facts occurred in two or more states; and (2) to what extent should the chosen legal system regulate the situation.
>
> Several theories have been propounded in order to identify the legal system that should ultimately control. Although ideally, all choice-of-law theories should intrinsically advance both notions of justice and predictability, they do not always do so. The forum is then faced with the problem of deciding which of these two important values should be stressed.
>
> Before a choice can be made, it is necessary for us to determine under what category a certain set of facts or rules fall. This process is known as "characterization", or the "doctrine of qualification". It is the "process of deciding whether or not the facts relate to the kind of question specified in a conflicts rule." The purpose of "characterization" is to enable the forum to select the proper law.
>
> Our starting point of analysis here is not a legal relation, but a factual situation, event, or operative fact. An essential element of conflict rules is the indication of a "test" or "connecting factor" or "point of contact". Choice-of-law rules invariably consist of a factual relationship (such as

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67 358 Phil. 105 (2008) [Per J. Leonen, Second Division].

property right, contract claim) and a connecting factor or point of contact, such as the situs of the res, the place of celebration, the place of performance, or the place of wrongdoing.

Note that one or more circumstances may be present to serve as the possible test for the determination of the applicable law. These "test factors" or "points of contact" or "connecting factors" could be any of the following:

(1) [t]he nationality of a person, his domicile, his residence, his place of sojourn, or his origin;

(2) the seat of a legal or juridical person, such as a corporation;

(3) the situs of a thing, that is, the place where a thing is, or is deemed to be situated. In particular, the *lex situs* is decisive when real rights are involved;

(4) the place where an act has been done, the locus actus, such as the place where a contract has been made, a marriage celebrated, a will signed or a tort committed. The *lex loci actus* is particularly important in contracts and torts;

(5) the place where an act is intended to come into effect, *e.g.*, the place of performance of contractual duties, or the place where a power of attorney is to be exercised;

(6) the intention of the contracting parties as to the law that should govern their agreement, the *lex loci intentionis*;

(7) the place where judicial or administrative proceedings are instituted or done. The *lex fori* — the law of the forum — is particularly important because, as we have seen earlier, matters of "procedure" not going to the substance of the claim involved are governed by it; and because the *lex fori* applies whenever the content of the otherwise applicable foreign law is excluded from application in a given case for the reason that it falls under one of the exceptions to the applications of foreign law; and

(8) the flag of a ship, which in many cases is decisive of practically all legal relationships of the ship and of its master or owner as such. It also covers contractual relationships particularly contracts of affreightment.

In *Alcala v. Alcañeses, et al.*,[68] We also held, citing the above guidelines in *Saudi v. Rebesencio*, that:

Pursuant to these guidelines and upon scrutiny of the records, this Court holds that the following "points of contact" are material: (1) the parties' nationality; (2) Kenya Air's principal place of business; (3) the place where the tort was committed; and (4) the intention of the contracting parties as to the law that should govern their agreement.[69]

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68 G.R. No. 187847, June 30, 2021 [Per J. Leonen, Third Division].

69 *Id.* at 12. This pinpoint citation refers to a copy of the Decision uploaded to the Supreme Court website.

The sixth item in the *Saudia* guidelines on dealing with choice of law problems is the intention of the contracting parties as to the law that should govern their agreement or *lex loci intentionis*. In some cases, the parties to a contract may specifically and explicitly choose the law that will govern their agreement, while in some cases, the *lex loci intentionis* may be inferred by looking at the circumstances surrounding the contract and the parties' intentions as inferred from those circumstances.[70]

If the parties specifically and explicitly choose the law that will govern their agreement, that intent is expressed in the form of a choice of law stipulation. If there is an express choice of law stipulation, there is no need to look at other circumstantial evidence of the parties' intentions, as the intention is reduced into a contractual clause.[71]

Choice of law stipulations are clauses in contracts that specify which law will be used to interpret and enforce the contract. These stipulations are valid and enforceable because the parties to a contract have the freedom to establish their own terms and conditions for their agreement, as long as those terms are not contrary to law, morals, good customs, public order, or public policy. Parties to a contract can choose which law will govern their agreement, and that choice will be respected by the courts. The validity and enforceability of choice of law stipulations is based on the principle of freedom of contract, which allows parties to enter into agreements on their own terms. However, the courts may still review the terms of a contract to ensure that they are within the valid scope of the freedom of contract.[72]

Choice of law stipulations are very common in cross-border transactions because they help to ensure that contracts are interpreted and enforced in a consistent and predictable manner. Cross-border transactions involve parties from different jurisdictions, which means that different legal systems and laws may apply to the contract. By including a choice of law stipulation in the contract, the parties can specify which law will govern their agreement, which can help to avoid conflicts and disputes. This can also provide greater certainty and clarity for the parties, as they will know exactly which law will be used to interpret and enforce the contract.[73]

Choice of law stipulations often prefer certain jurisdictions because they have more predictable rules and legal systems. This can provide greater certainty and clarity for the parties to a contract, as they will know exactly which law will be used to interpret and enforce the contract. In addition, some jurisdictions may have laws that are more favorable to the parties, which can

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70 *See* item (5) of the *Saudia* guidelines, as contrasted to item (6).

71 Item (6) of the *Saudia* guidelines.

72 *Raytheon International, Inc. v. Rouzie, Jr.*, 570 Phil. 151 (2008) [Per J. Tinga, Second Division].

73 Born, G. and Kalelioglu, C., 2021. *Choice-of-Law Agreements in International Contracts.* GEORGIA JOURNAL OF INTERNATIONAL & COMPARATIVE LAW, vol. 50:44, December 17, 2021.

be another reason why they might choose to include a choice of law stipulation in their contract.

In this case, the applicable laws in the relevant contracts are based on the principle of *lex loci intentionis* due to the choice of law stipulations present in these contracts.

The promissory notes stipulate that it should be "governed and construed in accordance with the laws of the Republic of the Philippines"[74] as the choice of law. A promissory note is a written promise to pay a specific amount of money at a specified time or on demand. Depending on the stipulations, it may or may not be a negotiable instrument, and it is generally (though not necessarily) assignable or transferable from one person to another. A promissory note typically includes the name and address of the borrower, the amount of the loan, the interest rate, and the repayment schedule. It may also include other terms and conditions, such as the consequences of defaulting on the loan. Promissory notes are commonly used in lending transactions, and they can be used to secure loans from banks or other financial institutions. Here, the promissory notes give rise to a principal obligation on the part of PI Two to repay the principal amount to SCB Philippines. This principal obligation, which is in the nature of a simple loan under the Civil Code, is doubtless governed by Philippine law based on their choice of law stipulations.

This principal obligation of simple loan, which arises from the Promissory Notes, is supported by accessory contracts, which arise from the LBHI guarantee and the LBHI pledge agreement. The LBHI guarantee and the LBHI pledge agreement stipulate New York law as the choice of law.

A pledge agreement is a contract that is used to secure a loan. In a pledge agreement, the borrower agrees to pledge collateral, such as real property or personal property, as security for the loan. If the borrower defaults on the loan, the lender can use the pledged collateral to satisfy the outstanding debt. Pledge agreements are commonly used in lending transactions, and they can provide greater protection for the lender by giving them the right to seize the pledged collateral if the borrower fails to repay the loan. Pledge agreements can be used in conjunction with other types of loan documents, such as promissory notes or guarantee agreements.[75]

A guarantee agreement is a contract in which one party, known as the guarantor, agrees to be responsible for the obligations of another party, known as the borrower, in the event that the borrower fails to fulfill those obligations. A guarantee agreement is also commonly used in lending transactions, where

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74 *Rollo* (G.R. No. 216608 & 216625), pp. 388, 392, 396 & 400.

75 CIVIL CODE, arts. 2093-2123.

it can provide additional protection for the lender. If the borrower defaults on the loan, the lender can seek payment from the guarantor, who is contractually bound to fulfill the borrower's obligations. Guarantee agreements can be used in conjunction with other types of loan documents, such as promissory notes or pledge agreements.[76]

Both pledge and guarantee agreements are mere accessory contracts. An accessory contract is a contract that is connected to or dependent on another obligation[77] or contract. In other words, an accessory contract is a secondary or subordinate obligation that is dependent on the fulfillment of a primary or principal obligation or contract. The guarantee agreement is considered an accessory contract, because the guarantor's obligation to fulfill the borrower's obligation is dependent on the borrower's failure to fulfill those obligations. A pledge agreement is an accessory contract because the borrower's obligation to repay the loan is the primary or principal obligation, and the lender's right to seize the pledged collateral is the secondary or subordinate obligation. The borrower's obligation to repay the loan is the main obligation, and the pledge agreement is an accessory obligation that is dependent on the borrower's failure to fulfill that obligation. If the borrower repays the loan as agreed, then the lender's right to seize the pledged collateral will never come into effect. The pledge agreement only becomes relevant if the borrower defaults on the loan, at which point the lender can exercise their right to seize the pledged collateral to satisfy the outstanding debt. Accessory obligations, in these contexts, are often used in contracts to provide additional protection or security for one of the parties.

These accessory obligations of LBHI guarantee and the LBHI pledge agreement were modified in, and supplemented by, the Stipulation, Agreement and Order, as an amicable settlement in the US bankruptcy case. The Stipulation, Agreement and Order stipulates New York law as the choice of law.

It is not difficult to conceive why these contracts have varying choice of law stipulations. *First*, the LBHI guarantee is a contract that ensures the payment of all loans, advances, and other credit facilities or financial accommodations that are owed by the LBHI affiliate borrowers under the group facilities agreement. This includes payment of interest and charges, and applies to all obligations that are due, regardless of how or when they are required to be paid. The LBHI guarantee is subject to New York law, and it was created and is to be performed by LBHI, which is a corporation based in New York. *Second*, the pledged collateral under the LBHI pledge agreement consists of dollar-denominated securities issued by corporations based in the USA that were deposited in a depository trust and clearing account in New

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[76] Note that the "guarantee" here does not necessarily refer to the "guaranty" under the Civil Code.

[77] *Spouses Rigor v. Consolidated Orix Leasing and Finance Corporation*, 436 Phil. 243 (2002) [Per J. Carpio, Third Division].

York. Furthermore, the LBHI pledge agreement was signed in New York by LBHI and SCB New York, both of which are based in New York. *Third*, as for the promissory notes, they were executed between two Philippine-based entities, with the performance thereof taking place in the Philippines, and thus they had to be governed by Philippine law.

We are therefore faced with a situation where (1) the principal contract is governed by Philippine law but (2) the accessory contracts, and the modifications thereon, are governed by New York law.

The question now is: when the Stipulation, Agreement and Order was executed, has the principal obligation under the promissory notes been extinguished? A threshold question is whether the *fact* of extinguishment of the principal obligation should be governed by the choice of law stipulation in the principal contract or the choice of law stipulation in the accessory contracts.

We rule that the extinguishment of a principal obligation is a matter incidental to that obligation, and not to the supporting accessory obligations. Thus, issues on extinguishment of the principal obligation should be governed by the law governing the principal obligation, and not the law governing the accessory obligations.

An obligation is a legal relationship between two parties, in which one party is required to perform certain actions or provide certain things to the other party. An obligation typically has three incidents in its existence: creation, performance, and extinguishment. *First*, the incident of creation refers to the moment when the obligation is created, such as when a contract is signed or when a legal duty is imposed.[78] *Second*, the incident of performance refers to the time when the obligation must be fulfilled, such as when a contract specifies that certain actions must be taken or when a legal duty requires a certain behavior.[79] *Third*, the incident of extinguishment refers to the moment when the obligation is ended or discharged, such as when a contract is terminated or when a legal duty is no longer in effect.[80]

Both principal obligations and accessory obligations *each* have their own separate legal existence—*i.e.*, a principal obligation can be created, performed, and extinguished *independently and separately* from the creation, performance, and extinguishment of the accessory obligation. For example, the creation, performance, and extinguishment of a loan is different from the creation, performance, and extinguishment of a pledge agreement. Parties

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78 *See*, generally, CIVIL CODE, Book IV, Title I, Chapter 1 and the various provisions on the manner of execution and perfection of certain kinds of contracts in the Civil Code.

79 *See*, generally, CIVIL CODE, Book IV, Title I, Chapters 2 and 3.

80 CIVIL CODE, art. 1231.

may create a loan by executing a promissory note and delivering the proceeds, but they may create a pledge agreement by executing that agreement and delivering the pledged security. It is true that when a party defaults under the loan and the secured lender (who is the pledgee) forecloses the pledge, the foreclosure (if successful) results in the extinguishment of the loan and the simultaneous extinguishment of the pledge. However, these two incidents of extinguishment are of two counts—*i.e.*, the extinguishment of the loan (through payment by way of a successful foreclosure) and the extinguishment of the pledge (through the extinguishment of the principal obligation that it supports). These two incidents of extinguishment are *concurrent* because We are talking about a principal obligation supported by an accessory obligation, but they are theoretically *separate* simply because two contracts (and therefore, two separate sets of prestation) are involved.

In the same manner, when the Stipulation, Agreement and Order, which is an amendatory agreement that affects the accessory contracts of LBHI guarantee and LBHI pledge agreement was executed, the question of whether the principal obligation arising from the promissory notes was extinguished is a matter to be decided under the law governing the promissory notes, and not under the law governing the Stipulation, Agreement and Order, LBHI guarantee, or LBHI pledge agreement.

Accordingly, under Philippine law, Article 1231 of the Civil Code provides:

> Article 1231. Obligations are extinguished:
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> (1) By payment or performance;
> (2) By the loss of the thing due;
> (3) By the condonation or remission of the debt;
> (4) By the confusion or merger of the rights of creditor and debtor;
> (5) By compensation;
> (6) By novation.
>
> Other causes of extinguishment of obligations, such as annulment, rescission, fulfillment of a resolutory condition, and prescription, are governed elsewhere in this Code.

Payment or performance is the mode of extinguishment most relevant to the factual situation in the present case. Under Article 1232 of the Civil Code, payment means not only the delivery of money but also the performance, in any other manner, of an obligation. This means that payment can also include other forms of performance that satisfy the obligations of the parties involved. For example, if a contract requires one party to provide a certain service to the other party, payment for that service could be made by delivering money to the party that provided the service, or alternatively, payment could be made by providing some other form of performance that

satisfies the obligations of the contract, such as delivering a certain item or providing some other service. In either case, the performance of the obligation is considered to be payment for the purposes of the contract.

Article 1233 of the Civil Code states that "a debt shall not be understood to have been paid unless the thing or service in which the obligation consists has been completely delivered or rendered, as the case may be." In other words, payment of a debt requires the full and complete performance of the obligation, rather than partial or incomplete performance.

In contracts of loan, the debtor is expected to deliver the sum of money due the creditor. These provisions must be read in relation with the other rules on payment under the Civil Code, which rules impliedly require acceptance by the creditor of the payment in order to extinguish an obligation.

In the present case, SCB Philippines claims that the principal obligation under the promissory notes was not yet paid and extinguished. Meanwhile, PI Two claims that the said principal obligation was already paid and extinguished. Whether the principal obligation under the promissory notes was paid or not is a question of fact. In attempting to resolve this question of fact, PI Two, PI One, and MRMAH2 identified the Stipulation, Agreement and Order as *proof* of the fact of payment and extinguishment of the principal obligation. The Stipulation, Agreement and Order was submitted as an *evidence* of such payment and extinguishment. As proof or evidence of the factual question of payment and extinguishment of the principal obligation, the Stipulation, Agreement and Order is incidentally also a written contract, and one which is governed by New York law. *As a written contract, submitted as documentary evidence, it must therefore be read and interpreted in accordance with its own terms. And its own terms dictate that it must be read and interpreted in accordance with New York law.*

Now, in reading and interpreting the Stipulation, Agreement and Order in accordance with its own terms, are We then able to infer and resolve the question of whether there is payment and extinguishment of the principal obligation arising from the promissory notes under Philippine law?

We hold that the payment and extinguishment of the principal obligation arising from the promissory notes have not been adequately proved by the mere execution of the Stipulation, Agreement and Order.

Whether SCB Philippines' claims against PI Two had been extinguished upon the execution of the Stipulation, Agreement and Order

PI Two alleges that the execution of the Stipulation, Agreement and Order indicates that the PIT Loan, which arose from the promissory notes, has been paid off or otherwise extinguished, as it represents a full settlement of the PI Two Loan in the US bankruptcy court. This is based on PI Two's interpretation that the Stipulation, Agreement and Order prove that: (1) SCB redeemed the Pledged Collateral in its favor; (2) SCB foreclosed on the pledged collateral; (3) SCB exercised full ownership and control over the pledged collateral; and (4) SCB sold the pledged collateral. Thus, applying Philippine law (as the promissory notes were governed by Philippine law), specifically Article 2115 of the Civil Code, to the foregoing alleged facts supposedly proven by the Stipulation, Agreement and Order, the appropriation by the lender of a pledged collateral shall extinguish the principal obligation supported by the pledge. Article 2115 of the Civil Code states:

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

Preliminarily, Article 2115 of the Civil Code is not applicable considering that the Stipulation, Agreement and Order must be interpreted according to the law of New York, *even if the PIT Loan or the Promissory Notes are governed by Philippine law*. This is in view of the fact that the stipulation, agreement and order (together with the LBHI guarantee and the LBHI pledge agreement) bears a clear choice of law stipulation. Moreover, there are several points of contact in New York present in the execution of the Stipulation, Agreement and Order—*i.e.*, the place of execution, the principal offices of the parties, and the location of the pledged collaterals, that points to New York law as the one more suitable to be applied in interpreting the stipulation, agreement and order.

To harmonize the laws of different jurisdictions in cross-border insolvency proceedings, the principle of *lex loci intentionis* must be applied, as it relates to choice of law stipulations in various lending and security contracts. In this case, to harmonize these apparently conflicting choice of law stipulations, We rule that the extinguishment of the loan itself is to be governed by Philippine law, but questions involving the redemption, foreclosure or appropriation of the pledged collaterals are to be governed by New York law. *Incidentally*, since the loan and the security obligation are both connected, in that one is a principal obligation and the other is an accessory obligation, questions involving the redemption, foreclosure or appropriation of the pledged collaterals *will necessarily determine* the fact of the extinguishment of the loan under Philippine law.

Based on the submission by SCB Philippines of the interpretation of the Stipulation, Agreement and Order under New York law, We are constrained to rule that SCB Philippines' claim arising from the PIT Loan has not yet been extinguished nor paid in the LBHI bankruptcy case.

To recall, the LBHI pledge agreement executed by LBHI was to constitute the pledged collaterals as a security for "any and all indebtedness, liabilities and obligations of every kind"[81] under the LBHI guarantee. LBHI delivered the pledged collaterals (particularly, the HD supply notes) in a depository trust and clearing account in favor of SCB New York to perfect the latter's security interest in the HD supply notes under the Uniform Commercial Code.[82] When LBHI initiated the LBHI bankruptcy case, the automatic stay and the stay order[83] prevented any creditor from foreclosing, enforcing or appropriating any security to satisfy the claims against LBHI while the LBHI bankruptcy case is pending.[84] When SCB New York filed a claim in the LBHI bankruptcy case, LBHI and LCPI filed an adversary complaint and objection against SCB New York and SCB Korea in the US Bankruptcy Court claiming that: the transfers were done "with the actual intent to hinder, delay and/or defraud LBHI's creditors";[85] (2) in any event, it was LCPI and not LBHI who owned the pledged collaterals;[86] and (3) that the same was likewise done "with the actual intent to hinder, delay and/or defraud LCPI's creditors."[87] This litigation led to the execution of the Stipulation, Agreement and Order, which was a way to amicably settle the dispute, and which was later on approved by the US bankruptcy court.[88]

The Stipulation, Agreement and Order recognized that LCPI is the owner of the pledged collaterals,[89] and that SCB New York would release all its security interests over the HD supply notes and/or remit the redemption proceeds to LCPI, and release all of its security interests over the Idearc Loans.[90] In exchange, both SCB Korea and SCB are granted an "allowed non-priority, senior, non-subordinated general unsecured guarantee claim against LBHI[.]"[91]

Thus, it is readily apparent that the release of the pledged collateral to LCPI did not mean that ownership was transferred from SCB to LCPI. PI Two took this release of security by SCB to mean that ownership was in the first place vested in SCB, and since ownership was previously vested in SCB, it

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81 *Rollo* (G.R. Nos. 216608 & 216625), p. 522.
82 *Id.* at 34.
83 *Id.* at 532–534.
84 *Id.* at 532–539.
85 *Id.* at 896.
86 *Id.* at 897.
87 *Id.*
88 *Id.* at 926–937.
89 *Id.* at 928.
90 *Id.* at 932–933.
91 *Id.* at 930–931.

constituted an appropriation of the pledged collateral which allegedly resulted in the extinguishment of the PIT Loan. However, there is nothing in the stipulation, agreement and order that proves this.

To the contrary, there is no evidence on record to prove that SCB obtained title or ownership over the pledged collaterals. As shown by SCB Philippines through an affidavit of an expert on the law of New York, the proper procedure for SCB to obtain title or ownership over the pledged collateral is through its foreclosure or acceptance as full or partial satisfaction of the secured obligation in the event of an occurrence of an event of default and notice thereof.[92] There was no proof or evidence of foreclosure, or acceptance of the pledged collateral as full or partial satisfaction of the secured obligation. Moreover, the issuance of the automatic stay order and stay order in the LBHI bankruptcy proceedings in New York effectively prevented SCB from foreclosing or appropriating the pledged collaterals.[93]

With respect to the redemption of the HD supply notes by the original issuer thereof, We are inclined to believe that the redemption proceeds were received by SCB New York considering that it had possession as well a security interest over the same. However, such redemption proceeds were held by SCB in trust for LCPI, the owner of the HD supply notes. This was the reason why SCB New York remitted the redemption proceeds to LCPI. It was not because SCB New York became at one point in time the owner of the HD supply notes.

In short, the delivery by SCB of the pledged collaterals to LCPI constituted a return of the pledged collaterals to LCPI, its original owner. In exchange, both SCB Korea and SCB are granted an "allowed non-priority, senior, non-subordinated general unsecured guarantee claim against LBHI[.]"[94] Thus, there is no basis for PI Two to claim that, under the Stipulation, Agreement and Order, the PIT Loan was considered extinguished.

We shall now proceed to tackle the issue of indirect contempt.

Whether the ruling of the CA denying PI Two's Petition for indirect contempt is tantamount to an acquittal that is already final and may no longer be appealed

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92 *Id.* at 101–102.
93 *Id.* at 532–539.
94 *Id.* at 930–931.

Contempt of court is defined as a willful disregard or disobedience of a public authority. [95] In its broad sense, contempt is a disregard of, or disobedience to, the rules or orders of a legislative or judicial body or an interruption of its proceedings by disorderly behavior or insolent language in its presence or so near thereto as to disturb its proceedings or to impair the respect due to such a body.[96] In its restricted and more usual sense, contempt comprehends a despising of the authority, justice, or dignity of a court.[97]

There are two kinds of contempt of court: direct and indirect. Also, a contempt charge can either be criminal or civil in nature.[98] The proceedings for punishment of indirect contempt are criminal in nature.[99] This form of contempt is conduct that is directed against the dignity and authority of the court or a judge acting judicially; it is an act obstructing the administration of justice which tends to bring the court into disrepute or disrespect. Intent is a necessary element in criminal contempt, and no one can be punished for a criminal contempt unless the evidence makes it clear that he intended to commit it.[100]

In *Digital Telecommunications Philippines, Inc. v. Cantos*,[101] this Court held that the dismissal of the indirect contempt charge against the respondent therein amounts to an acquittal, which effectively bars a second prosecution, thus:

> At the outset, the Court shall address the issue on double jeopardy as discussed by petitioner in its Memorandum.
>
> In his Comment, respondent reiterated the CA's ruling that the RTC Decision amounts to an acquittal, hence, an appeal does not lie. Arguing against it, petitioner contends that the rule on double jeopardy will not bar it from pursuing its appeal because this is not a criminal case and respondent is not tried as an accused.
>
> The Court is not persuaded. Indeed, contempt is not a criminal offense. *However, a charge for contempt of court partakes of the nature of a criminal action. Rules that govern criminal prosecutions strictly apply to a prosecution for contempt. In fact, Section 11 of Rule 71 of the Rules of Court provides that the appeal in indirect contempt proceedings may be taken as in criminal cases. This Court has held that an alleged contemner should be accorded the same rights as that of an accused. Thus, the dismissal of the indirect contempt charge against respondent amounts to an acquittal, which*

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95 *Castillejos Consumers Association, Inc. v. Dominguez*, 757 Phil. 149, 158 (2015) [Per J. Mendoza, Second Division].

96 *Lorenzo Shipping Corporation v. Distribution Management Association of the Philippines*, 672 Phil. 1, 10 (2011) [Per J. Bersamin, First Division].

97 *Rizal Commercial Banking Corporation v. Serra*, 813 Phil 1013, 1025 (2017) [Per J. Carpio, Second Division].

98 *Castillejos Consumers Association, Inc. v. Dominguez, supra* at 159.

99 *P/Supt. Marantan v. Atty. Diokno et al.*, 726 Phil. 642, 648 (2014) [Per J Mendoza, Third Division] citing *Soriano v. Court of Appeals*, 474 Phil. 741 (2004) [Per J. Tinga, Second Division].

100 *Id.*

101 722 Phil. 10 (2013) [Per J. Del Castillo, Second Division].

> *effectively bars a second prosecution.*[102] (Emphasis supplied, citations omitted)

Accordingly, the CA's dismissal of PI Two's Petition for indirect contempt is akin to an acquittal in a criminal case. Thus, PI Two can no longer appeal the said dismissal to this Court, otherwise, the right against double jeopardy of the respondents to the indirect contempt case will be violated.

Nevertheless, even assuming that the ruling of the CA can still be the subject of an appeal to this Court, We find that SCB Philippines is not guilty of indirect contempt.

The crux of PI Two's Petition for indirect contempt is SCB Philippines' alleged concealment of information from the appellate court of the RTC's directive given during the hearing on the motions for execution, *i.e.*, that SCB Philippines and PI Two submit their dispute to mediation. According to PI Two, by not informing the CA of what transpired during the hearing on the motions for execution, SCB Philippines misled the appellate court to believe that the issuance of an order for execution of the Joint Resolution by the RTC is imminent and thus the issuance of a TRO and TMO was necessary. PI Two contends that the acts of respondents amounted to indirect contempt under subsections (c) and (d) of Section 3, Rule 71 of the Rules of Court,[103] which states:

> SEC. 3. *Indirect contempt to be punished after charge and hea*ring. - After a charge in writing has been filed and an opportunity given to the respondent to comment thereon within such period as may be fixed by the court and to be heard by himself or by counsel, a person guilty of any of the following acts may be punished for indirect contempt:
>
> . . . .
>
> (c) Any abuse of or any unlawful interference with the process or proceeding of a court not constituting direct contempt under Section 1 of this Rule;
>
> (d) Any improper conduct tending directly or indirectly to impede, obstruct, or degrade the administration of justice[.]

Indirect contempt refers to contumacious acts perpetrated outside of the sitting of the court and may include misbehavior of an officer of a court in the performance of his official duties or in his official transactions, disobedience of or resistance to a lawful writ, process, order, judgment, or command of a court, or injunction granted by a court or a judge, any abuse or any unlawful interference with the process or proceedings of a court not constituting direct

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102 *Id.* at 20–21.

103 *Rollo* (G.R. Nos. 216702-03), pp. 73–94.

contempt, or any improper conduct tending directly or indirectly to impede, obstruct or degrade the administration of justice.[104]

Also, this Court has discoursed that:

> To be considered contemptuous, an act must be clearly contrary to or prohibited by the order of the court. Thus, a person cannot be punished for contempt for disobedience of an order of the court, unless the act which is forbidden or required to be done is clearly and exactly defined, so that there can be no reasonable doubt or uncertainty as to what specific act or thing is forbidden or required. [105]

In view of the foregoing, PI Two's contentions fail to persuade. PI Two was unable to show that SCB Philippines' supposed failure to disclose to the CA the RTC's directive that SCB Philippines and PI Two undergo mediation is an act that: (1) abused or unlawfully interfered with the processes and proceedings of the CA; or (2) directly or indirectly impeded, obstructed or degraded the appellate court's administration of justice.

Verily, PI Two was unable to point to any rule or law that requires SCB Philippines to inform the CA of the RTC's directive for it and PI Two to undergo mediation proceedings. In the absence of any clear rule or law that it should disclose such information to the appellate court, SCB Philippines' supposed failure to do so cannot be considered as indirect contempt.

In any event, We find no merit to PI Two's claim that, in failing to disclose the aforementioned development to the CA, SBC Philippines misled the CA as to the necessity for issuance of injunctive relief. Section 5, Rule 3 of the Interim Rules of Procedure on Corporate Rehabilitation explicitly states that any order issued by a rehabilitation court is immediately executory unless enjoined by the appellate court, to wit:

> Section 5. *Executory Nature of Orders.— Any order issued by the court under these Rules is immediately executory. A petition to review the order shall not stay the execution of the order unless restrained or enjoined by the appellate court.* Unless otherwise provided in these Rules, the review of any order or decision of the court or an appeal therefrom shall be in accordance with the Rules of Court; provided, however, that the reliefs ordered by the trial or appellate courts shall take into account the need for resolution of proceedings in a just, equitable and speedy manner. (Emphasis supplied)

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104 *Tokio Marine Malayan Insurance Company, Inc. et al. v. Valdez*, 566 Phil. 443, 455 (2008) [Per J. Sandoval-Gutierrez].

105 *Rivulet Agro-Industrial Corporation v. Parungao*, 701 Phil. 444, 452 (2013) [Per J. Perlas-Bernabe, Second Division] citing *Bank of the Philippine Islands v. Calanza*, 647 Phil. 507 (2010) [Per J. Nachura, Second Division] and *Lu Ym v. Mahinay*, 524 Phil. 564 (2006) [Per J. Ynares-Santiago, First Division].

Thus, the threat of immediate execution of the Joint Resolution remained despite the RTC's directive that SBC Philippines and PI Two submit their dispute to mediation. Verily, SBC Philippines' only iron-clad guarantee against the immediate execution of the Joint Resolution is the issuance of injunctive relief by the appellate court. Thus, SBC Philippines did not mislead the CA when it claimed in its manifestation and urgent motion that the execution of the Joint Resolution is imminent.

ACCORDINGLY, the Petition for Review on *Certiorari* filed by Standard Chartered Bank, Philippine Branch is **GRANTED**, while the Petition for Review on *Certiorari* filed by Philippine Investment Two (SPV-AMC), Inc. is **DENIED**. The Decision dated May 26, 2014 and Resolution dated January 27, 2015 issued by the Court of Appeals in CA-G.R. SP Nos. 131652 & 132088 are hereby **PARTLY MODIFIED**.

Branch 149 of the Regional Trial Court of Makati City and the Rehabilitation Receiver in SP Case No. M-6683 is **DIRECTED** to:

1. Determine the outstanding balance of Standard Chartered Bank, Philippine Branch's loan to Philippine Investment Two (SPV-AMC), Inc. taking into consideration prior payments as well as distributions made to Standard Chartered Bank in the Lehman Brothers Holding, Inc. bankruptcy proceedings in New York; and

2. Amend Philippine Investment Two (SPV-AMC), Inc.'s Rehabilitation Plan to include Standard Chartered Bank, Philippine Branch as a creditor.

SO ORDERED.

JHOSEP Y. LOPEZ
Associate Justice

WE CONCUR:

MARVIC M.V.F. LEONEN
Senior Associate Justice

AMY C. LAZARO-JAVIER
Associate Justice

MARIO V. LOPEZ
Associate Justice

ANTONIO T. KHO, JR.
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 this Court's Division.

MARIVIC M.V.F. LEONEN
Senior Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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 this Court's Division.

ALEXANDER G. GESMUNDO
Chief Justice