

CHANROBLES PUBLISHING COMPANY

**SUPREME COURT  
SECOND DIVISION**

**TRADERS ROYAL BANK,  
*Petitioner,***

***-versus-***

**G.R. No. 93397  
March 3, 1997**

**COURT OF APPEALS, FILRITERS  
GUARANTY ASSURANCE  
CORPORATION and CENTRAL BANK of  
the PHILIPPINES,**

***Respondents.***

X-----X

**DECISION**

**TORRES, JR., J.:**

Assailed in this Petition for Review on *Certiorari* is the Decision of the respondent Court of Appeals dated January 29, 1990,<sup>[1]</sup> affirming the nullity of the transfer of Central Bank Certificate of Indebtedness (CBCI) No. D891,<sup>[2]</sup> with a face value of P500,000, from the Philippine Underwriters Finance Corporation (Philfinance) to the petitioner Trader's Royal Bank (TRB), under a Repurchase Agreement<sup>[3]</sup> dated February 4, 1981, and a Detached Assignment<sup>[4]</sup> dated April 27, 1981.

Docketed as Civil Case No. 83-17966 in the Regional Trial Court of Manila, Branch 32, the action was originally filed as a Petition for Mandamus<sup>[5]</sup> under Rule 65 of the Rules of Court, to compel the Central Bank of the Philippines to register the transfer of the subject CBCI to petitioner Traders Royal Bank (TRB).

In the said petition, TRB stated that:

- “3. On November 27, 1979, Filriters Guaranty Assurance Corporation (Filriters) executed a ‘Detached Assignment’, whereby Filriters, as registered owner, sold, transferred, assigned and delivered unto Philippine Underwriters Finance Corporation (Philfinance) all its rights and title to Central Bank Certificates of Indebtedness (CBCI) Nos. D890 to D896, inclusive, each in the denomination of PESOS: FIVE HUNDRED THOUSAND (P500,000) and having an aggregate value of PESOS: THREE MILLION FIVE HUNDRED THOUSAND (P3,500,000.00);
4. The aforesaid Detached Assignment (Annex “A”) contains an express authorization executed by the transferor intended to complete the assignment through the registration of the transfer in the name of PhilFinance, which authorization is specifically phrased as follows: ‘(Filriters) hereby irrevocably authorized the said issuer (Central Bank) to transfer the said bond/certificates on the books of its fiscal agent;
5. On February 4, 1981, petitioner entered into a Repurchase Agreement with PhilFinance, whereby, for and in consideration of the sum of PESOS: FIVE HUNDRED THOUSAND (P500,000.00), PhilFinance sold, transferred and delivered to petitioner CBCI 4-year, 8th series, Serial No. D891 with a face value of P500,000.00, which CBCI was among those previously acquired by PhilFinance from Filriters as averred in paragraph 3 of the Petition;
6. Pursuant to the aforesaid Repurchase Agreement (Annex ‘B’), Philfinance agreed to repurchase CBCI Serial No. D891 (Annex ‘C’), at the stipulated price of PESOS: FIVE

HUNDRED NINETEEN THOUSAND THREE HUNDRED SIXTY-ONE & 11/100 (P519,361.11) on April 27, 1981;

7. PhilFinance failed to repurchase the CBCI on the agreed date of maturity, April 27, 1981, when the checks it issued in favor of petitioner were dishonored for insufficient funds;
8. Owing to the default of PhilFinance, it executed a Detached Assignment in favor of the Petitioner to enable the latter to have its title completed and registered in the books of the respondent. And by means of said Detachment Assignment, Philfinance transferred and assigned all its rights and title in the said CBCI (Annex 'C') to petitioner and, furthermore, it did thereby 'irrevocably authorize the said issuer (respondent herein) to transfer the said bond/certificate on the books of its fiscal agent.'
9. Petitioner presented the CBCI (Annex 'C'), together with the two (2) aforementioned Detached Assignments (Annexes 'B' and 'D'), to the Securities Servicing Department of the respondent, and requested the latter to effect the transfer of the CBCI on its books and to issue a new certificate in the name of petitioner as absolute owner thereof;
10. Respondent failed and refused to register the transfer as requested, and continues to do so notwithstanding petitioner's valid and just title over the same and despite repeated demands in writing, the latest of which is hereto attached as Annex 'E' and made an integral part hereof;
11. The express provisions governing the transfer of the CBCI were substantially complied with in petitioner's request for registration, to wit:

'No transfer thereof shall be valid unless made at said office (where the Certificate has been registered) by the registered owner hereof, in person or by his attorney duly authorized in writing, and similarly noted hereon,

and upon payment of a nominal transfer fee which may be required, a new Certificate shall be issued to the transferee of the registered holder thereof.’

And, without a doubt, the Detached Assignments presented to respondent were sufficient authorizations in writing executed by the registered owner, Filriters, and its transferee, PhilFinance, as required by the above-quoted provision;

12. Upon such compliance with the aforesaid requirements, the ministerial duties of registering a transfer of ownership over the CBCI and issuing a new certificate to the transferee devolves upon the respondent;”

Upon these assertions, TRB prayed for the registration by the Central Bank of the subject CBCI in its name.

On December 4, 1984, the Regional Trial Court trying the case took cognizance of the defendant Central Bank of the Philippines’ Motion for Admission of Amended Answer with Counter Claim for Interpleader,<sup>[6]</sup> thereby calling to fore the respondent Filriters Guaranty Assurance Corporation (Filriters), the registered owner of the subject CBCI as respondent.

For its part, Filriters interjected as Special Defenses the following:

- “11. Respondent is the registered owner of CBCI No. 891;
12. The CBCI constitutes part of the reserve investment against liabilities required of respondent as an insurance company under the Insurance Code;
13. Without any consideration or benefit whatsoever to Filriters, in violation of law and the trust fund doctrine and to the prejudice of policyholders and to all who have present or future claim against policies issued by Filriters, Alfredo Banaria, then Senior Vice-President-Treasury of Filriters, without any board resolution, knowledge or consent of the board of directors of Filriters and without

any clearance or authorization from the Insurance Commissioner, executed a detached assignment purportedly assigning CBCI No. 891 to Philfinance;

X X X

14. Subsequently, Alberto Fabella, Senior Vice-President-Comptroller and Pilar Jacobe, Vice-President-Treasury of Filriters (both of whom were holding the same positions in Philfinance), without any consideration or benefit redounding to Filriters and to the grave prejudice of Filriters, its policy holders and all who have present or future claims against its policies, executed similar detached assignment forms transferring the CBCI to plaintiff;

X X X

15. The detached assignment is patently void and inoperative because the assignment is without the knowledge and consent of directors of Filriters, and not duly authorized in writing by the Board, as required by Article V, Section 3 of CB Circular No. 769;
16. The assignment of the CBCI to Philfinance is a personal act of Alfredo Banaria and not the corporate act of Filriters and as such null and void;
  - a) The assignment was executed without consideration and for that reason, the assignment is void from the beginning (Article 1409, Civil Code);
  - b) The assignment was executed without any knowledge and consent of the board of directors of Filriters;
  - c) The CBCI constitutes reserve investment of Filriters against liabilities, which is a requirement under the Insurance Code for its existence as an insurance company and the pursuit of its business operations. The assignment of the CBCI is illegal act, in the sense

of malum in se or malum prohibitum, for anyone to make, either as corporate or personal act;

- d) The transfer or diminution of reserve investments of Filriters is expressly prohibited by law, is immoral and against public policy;
  - e) The assignment of the CBCI has resulted in the capital impairment and in the solvency deficiency of Filriters (and has in fact helped in placing Filriters under conservatorship), an inevitable result known to the officer who executed the detached assignment.
17. Plaintiff had acted in bad faith and with knowledge of the illegality and invalidity of the assignment;
- a) The CBCI No. 891 is not a negotiable instrument and as a certificate of indebtedness is not payable to bearer but is registered in the name of Filriters;
  - b) The provision on transfer of the CBCIs, provides that the Central Bank shall treat the registered owner as the absolute owner and that the value of the registered certificates shall be payable only to the registered owner; a sufficient notice to plaintiff that the assignments do not give them the registered owner's right as absolute owner of the CBCIs;
  - c) CB Circular 769, Series of 1980 (Rules and Regulations Governing CBCIs) provides that registered certificates are payable only to the registered owner (Article II, Section 1).
18. Plaintiff knew full well that the assignment by Philfinance of CBCI No. 891 by Filriters is not a regular transaction made in the usual or ordinary course of business;
- a) The CBCI constitutes part of the reserve investments of Filriters against liabilities required by the Insurance Code and its assignment or transfer is

expressly prohibited by law. There was no attempt to get any clearance or authorization from the Insurance Commissioner;

- b) The assignment by Filriters of the CBCI is clearly not a transaction in the usual or regular course of its business;
- c) The CBCI involved substantial amount and its assignment clearly constitutes disposition of 'all or substantially all' of the assets of Filriters, which requires the affirmative action of the stockholders (Section 40, Corporation [sic] Code).<sup>[7]</sup>

In its Decision<sup>[8]</sup> dated April 29, 1988, the Regional Trial Court of Manila, Branch XXXII found the assignment of CBCI No. D891 in favor of Philfinance, and the subsequent assignment of the same CBCI by Philfinance in favor of Traders Royal Bank null and void and of no force and effect. The dispositive portion of the decision reads:

“ACCORDINGLY, judgment is hereby rendered in favor of the respondent Filriters Guaranty Assurance Corporation and against the plaintiff Traders Royal Bank:

- (a) Declaring the assignment of CBCI No. 891 in favor of PhilFinance, and the subsequent assignment of CBCI by PhilFinance in favor of the plaintiff Traders Royal Bank as null and void and of no force and effect;
- (b) Ordering the respondent Central Bank of the Philippines to disregard the said assignment and to pay the value of the proceeds of the CBCI No. D891 to the Filriters Guaranty Assurance Corporation;

(c) Ordering the plaintiff Traders Royal Bank to pay respondent Filriters Guaranty Assurance Corp. The sum of P10,000 as attorney's fees; and

(d) to pay the costs.

SO ORDERED.”<sup>[9]</sup>

The petitioner assailed the decision of the trial court in the Court of Appeals,<sup>[10]</sup> but their appeal likewise failed. The findings of fact of the said court are hereby reproduced:

“The records reveal that defendant Filriters is the registered owner of CBCI No. D891. Under a deed of assignment dated November 27, 1971, Filriters transferred CBCI No. D891 to Philippine Underwriters Finance Corporation (Philfinance). Subsequently, Philfinance transferred CBCI No. D891, which was still registered in the name of Filriters, to appellant Traders Royal Bank (TRB). The transfer was made under a repurchase agreement dated February 4, 1981, granting Philfinance the right to repurchase the instrument on or before April 27, 1981. When Philfinance failed to buy back the note on maturity date, it executed a deed of assignment, dated April 27, 1981, conveying to appellant TRB all its rights and title to CBCI No. D891.

Armed with the deed of assignment, TRB then sought the transfer and registration of CBCI No. D891 in its name before the Security and Servicing Department of the Central Bank (CB). Central Bank, however, refused to effect the transfer and registration in view of an adverse claim filed by defendant Filriters.

Left with no other recourse, TRB filed a special civil action for mandamus against the Central Bank in the Regional Trial Court of Manila. The suit, however, was subsequently treated by the lower court as a case of interpleader when CB prayed in its amended answer that Filriters be impleaded as a respondent

and the court adjudge which of them is entitled to the ownership of CBCI No. D891. Failing to get a favorable judgment. TRB now comes to this Court on appeal.”<sup>[11]</sup>

In the appellate court, petitioner argued that the subject CBCI was a negotiable instrument, and having acquired the said certificate from Philfinance as a holder in due course, its possession of the same is thus free from any defect of title of prior parties and from any defense available to prior parties among themselves, and it may thus, enforce payment of the instrument for the full amount thereof against all parties liable thereon.<sup>[12]</sup>

In ignoring said argument, the appellate court said that the CBCI is not a negotiable instrument, since the instrument clearly stated that it was payable to Filriters, the registered owner, whose name was inscribed thereon, and that the certificate lacked the words of negotiability which serve as an expression of consent that the instrument may be transferred by negotiation.

Obviously, the assignment of the certificate from Filriters to Philfinance was fictitious, having been made without consideration, and did not conform to Central Bank Circular No. 769, series of 1980, better known as the “Rules and Regulations Governing Central Bank Certificates of Indebtedness”, which provided that any “assignment of registered certificates shall not be valid unless made by the registered owner thereof in person or by his representative duly authorized in writing.”

Petitioner’s claimed interest has no basis, since it was derived from Philfinance, whose interest was inexistent, having acquired the certificate through simulation. What happened was Philfinance merely borrowed CBCI No. D891 from Filriters, a sister corporation, to guarantee its financing operations.

Said the Court:

“In the case at bar, Alfredo O. Banaria, who signed the deed of assignment purportedly for and on behalf of Filriters, did not have the necessary written authorization from the Board of Directors of Filriters to act for the latter. For lack of such

authority, the assignment did not therefore bind Filriters and violated at the same time Central Bank Circular No. 769 which has the force and effect of a law, resulting in the nullity of the transfer (People vs. Que Po Lay, 94 Phil. 640; 3M Philippines, Inc. vs. Commissioner of Internal Revenue, 165 SCRA 778).

In sum, Philfinance acquired no title or rights under CBCI No. D891 which it could assign or transfer to Traders Royal Bank and which the latter can register with the Central Bank.

WHEREFORE, the judgment appealed from is AFFIRMED, with costs against plaintiff-appellant.

SO ORDERED.”<sup>[13]</sup>

Petitioner’s present position rests solely on the argument that Philfinance owns 90% of Filriter’s equity and the two corporations have identical corporate officers, thus demanding the application of the doctrine of piercing the veil of corporate fiction, as to give validity to the transfer of the CBCI from the registered owner to petitioner TRB.<sup>[14]</sup> This renders the payment by TRB to Philfinance for CBCI, as actual payment to Filriters. Thus, there is no merit to the lower courts’ ruling that the transfer of the CBCI from Filriters to Philfinance was null and void for lack of consideration.

Admittedly, the subject CBCI is not a negotiable instrument in the absence of words of negotiability within the meaning of the negotiable instruments law (Act 2031).

The pertinent portions of the subject CBCI read:

X X X

The Central Bank of the Philippines (the Bank) for value received, hereby promises to pay to bearer, or if this Certificate of indebtedness be registered, to FILRITERS GUARANTY ASSURANCE CORPORATION, the registered owner hereof, the principal sum of FIVE HUNDRED THOUSAND PESOS.

X X X

Properly understood, a certificate of indebtedness pertains to certificates for the creation and maintenance of a permanent improvement revolving fund, is similar to a “bond,” (82 Minn. 202). Being equivalent to a bond, it is properly understood as an acknowledgment of an obligation to pay a fixed sum of money. It is usually used for the purpose of long term loans.

The appellate court ruled that the subject CBCI is not a negotiable instrument, stating that:

“As worded, the instrument provides a promise ‘to pay Filriters Guaranty Assurance Corporation, the registered owner hereof.’ Very clearly, the instrument is payable only to Filriters, the registered owner, whose name is inscribed thereon. It lacks the words of negotiability which should have served as an expression of consent that the instrument may be transferred by negotiation.”<sup>[15]</sup>

A reading of the subject CBCI indicates that the same is payable to FILRITERS GUARANTY ASSURANCE CORPORATION, and to no one else, thus, discounting the petitioner’s submission that the same is a negotiable instrument, and that it is a holder in due course of the certificate.

The language of negotiability which characterize a negotiable paper as a credit instrument is its freedom to circulate as a substitute for money. Hence, freedom of negotiability is the touchstone relating to the protection of holders in due course, and the freedom of negotiability is the foundation for the protection which the law throws around a holder in due course (11 Am. Jur. 2d, 32). This freedom in negotiability is totally absent in a certificate of indebtedness as it merely acknowledges to pay a sum of money to a specified person or entity for a period of time.

As held in *Caltex (Philippines), Inc. vs. Court of Appeals*:<sup>[16]</sup>

“The accepted rule is that the negotiability or non-negotiability of an instrument is determined from the writing, that is, from the face of the instrument itself. In the

construction of a bill or note, the intention of the parties is to control, if it can be legally ascertained. While the writing may be read in the light of surrounding circumstances in order to more perfectly understand the intent and meaning of the parties, yet as they have constituted the writing to be the only outward and visible expression of their meaning, no other words are to be added to it or substituted in its stead. The duty of the court in such case is to ascertain, not what the parties may have secretly intended as contradistinguished from what their words express, but what is the meaning of the words they have used. What the parties meant must be determined by what they said.”

Thus, the transfer of the instrument from Philfinance to TRB was merely an assignment, and is not governed by the negotiable instruments law. The pertinent question then is, was the transfer of the CBCI from Filriters to Philfinance and subsequently from Philfinance to TRB, in accord with existing law, so as to entitle TRB to have the CBCI registered in its name with the Central Bank?

The following are the appellate court’s pronouncements on the matter:

“Clearly shown in the record is the fact that Philfinance’s title over CBCI No. D891 is defective since it acquired the instrument from Filriters fictitiously. Although the deed of assignment stated that the transfer was for ‘value received’, there was really no consideration involved. What happened was Philfinance merely borrowed CBCI No. D891 from Filriters, a sister corporation. Thus, for lack of any consideration, the assignment made is a complete nullity.

What is more, We find that the transfer made by Filriters to Philfinance did not conform to Central Bank Circular No. 769, series of 1980, otherwise known as the ‘Rules and Regulations Governing Central Bank Certificates of Indebtedness’, under which the note was issued. Published in the Official Gazette on November 19, 1980, Section 3 thereof provides that ‘any assignment of registered certificates shall not be valid unless

made by the registered owner thereof in person or by his representative duly authorized in writing.’

In the case at bar, Alfredo O. Banaria, who signed the deed of assignment purportedly for and on behalf of Filriters, did not have the necessary written authorization from the Board of Directors of Filriters to act for the latter. For lack of such authority, the assignment did not therefore bind Filriters and violated at the same time Central Bank Circular No. 769 which has the force and effect of a law, resulting in the nullity of the transfer (People vs. Que Po Lay, 94 Phil. 640; 3M Philippines, Inc. vs. Commissioner of Internal Revenue, 165 SCRA 778).

In sum, Philfinance acquired no title or rights under CBCI No. D891 which it could assign or transfer to Traders Royal Bank and which the latter can register with the Central Bank.”

Petitioner now argues that the transfer of the subject CBCI to TRB must be upheld, as the respondent Filriters and Philfinance, though separate corporate entities on paper, have used their corporate fiction to defraud TRB into purchasing the subject CBCI, which purchase now is refused registration by the Central Bank.

Says the petitioner:

“Since Philfinance owns about 90% of Filriters and the two companies have the same corporate officers, if the principle of piercing the veil of corporate entity were to be applied in this case, then TRB’s payment to Philfinance for the CBCI purchased by it could just as well be considered a payment to Filriters, the registered owner of the CBCI as to bar the latter from claiming, as it has, that it never received any payment for that CBCI sold and that said CBCI was sold without its authority.

X X X

We respectfully submit that, considering that the Court of Appeals has held that the CBCI was merely borrowed by Philfinance from Filriters, a sister corporation, to guarantee its

(Philfinance's) financing operations, if it were to be consistent therewith, on the issue raised by TRB that there was a piercing a veil of corporate entity, the Court of Appeals should have ruled that such veil of corporate entity was, in fact, pierced, and the payment by TRB to Philfinance should be construed as payment to Filriters."<sup>[17]</sup>

We disagree with the Petitioner.

Petitioner cannot put up the excuse of piercing the veil of corporate entity, as this is merely an equitable remedy, and may be awarded only in cases when the corporate fiction is used to defeat public convenience, justify wrong, protect fraud or defend crime or where a corporation is a mere alter ego or business conduit of a person.<sup>[18]</sup>

Piercing the veil of corporate entity requires the court to see through the protective shroud which exempts its stockholders from liabilities that ordinarily, they could be subject to, or distinguishes one corporation from a seemingly separate one, were it not for the existing corporate fiction. But to do this, the court must be sure that the corporate fiction was misused, to such an extent that injustice, fraud, or crime was committed upon another, disregarding, thus, his, her, or its rights. It is the protection of the interests of innocent third persons dealing with the corporate entity which the law aims to protect by this doctrine.

The corporate separateness between Filriters and Philfinance remains, despite the petitioners insistence on the contrary. For one, other than the allegation that Filriters is 90% owned by Philfinance, and the identity of one shall be maintained as to the other, there is nothing else which could lead the court under the circumstances to disregard their corporate personalities.

Though it is true that when valid reasons exist, the legal fiction that a corporation is an entity with a juridical personality separate from its stockholders and from other corporations may be disregarded,<sup>[19]</sup> in the absence of such grounds, the general rule must be upheld. The fact that Philfinance owns majority shares in Filriters is not by itself a ground to disregard the independent corporate status of Filriters. In *Liddel & Co., Inc. vs. Collector of Internal Revenue*,<sup>[20]</sup> the mere

ownership by a single stockholder or by another corporation of all or nearly all of the capital stock of a corporation is not of itself a sufficient reason for disregarding the fiction of separate corporate personalities.

In the case at bar, there is sufficient showing that the petitioner was not defrauded at all when it acquired the subject certificate of indebtedness from Philfinance.

On its face, the subject certificates states that it is registered in the name of Filriters. This should have put the petitioner on notice, and prompted it to inquire from Filriters as to Philfinance's title over the same or its authority to assign the certificate. As it is, there is no showing to the effect that petitioner had any dealings whatsoever with Filriters, nor did it make inquiries as to the ownership of the certificate.

The terms of the CBCI No. D891 contain a provision on its TRANSFER. Thus:

“TRANSFER: This Certificate shall pass by delivery unless it is registered in the owner's name at any office of the Bank or any agency duly authorized by the Bank, and such registration is noted hereon. After such registration no transfer thereof shall be valid unless made at said office (where the Certificate has been registered) by the registered owner hereof, in person, or by his attorney, duly authorized in writing and similarly noted hereon and upon payment of a nominal transfer fee which may be required, a new Certificate shall be issued to the transferee of the registered owner thereof. The bank or any agency duly authorized by the Bank may deem and treat the bearer of this Certificate, or if this Certificate is registered as herein authorized, the person in whose name the same is registered as the absolute owner of this Certificate, for the purpose of receiving payment hereof, or on account hereof, and for all other purpose whether or not this Certificate shall be overdue.”

This is notice to petitioner to secure from Filriters a written authorization for the transfer or to require Philfinance to submit such an authorization from Filriters.

Petitioner knew that Philfinance is not the registered owner of CBCI No. D891. The fact that a non-owner was disposing of the registered CBCI owned by another entity was a good reason for petitioner to verify or inquire as to the title of Philfinance to dispose of the CBCI.

Moreover, CBCI No. D891 is governed by CB Circular No. 769, series of 1980,<sup>[21]</sup> known as the Rules and Regulations Governing Central Bank Certificates of Indebtedness, Section 3, Article V of which provides that:

“SEC. 3. Assignment of Registered Certificates. — Assignment of registered certificates shall not be valid unless made at the office where the same have been issued and registered or at the Securities Servicing Department, Central Bank of the Philippines, and by the registered owner thereof, in person or by his representative, duly authorized in writing. For this purpose, the transferee may be designated as the representative of the registered owner.”

Petitioner, being a commercial bank, cannot feign ignorance of Central Bank Circular 769, and its requirements. An entity which deals with corporate agents within circumstances showing that the agents are acting in excess of corporate authority, may not hold the corporation liable.<sup>[22]</sup> This is only fair, as everyone must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.<sup>[23]</sup>

The transfer made by Filriters to Philfinance did not conform to the said Central Bank Circular, which for all intents, is considered part of the law. As found by the courts a quo, Alfredo O. Banaria, who had signed the deed of assignment from Filriters to Philfinance, purportedly for and in favor of Filriters, did not have the necessary written authorization from the Board of Directors of Filriters to act for the latter. As it is, the sale from Filriters to Philfinance was fictitious, and therefore void and inexistent, as there was no consideration for the same. This is fatal to the petitioner’s cause, for then, Philfinance had no title over the subject certificate to convey to Traders Royal Bank. *Nemo potest nisi quod de jure potest* — no man can do anything except what he can do lawfully.

Concededly, the subject CBCI was acquired by Filriters to form part of its legal and capital reserves, which are required by law<sup>[24]</sup> to be maintained at a mandated level. This was pointed out by Elias Garcia, Manager-in-Charge of respondent Filriters, in his testimony given before the court on May 30, 1986.

“Q Do you know this Central Bank Certificate of Indebtedness, in short, CBCI No. D891 in the face value of P500,000.00 subject of this case?

A Yes, sir.

Q Why do you know this?

A Well, this was the CBCI of the company sought to be examined by the Insurance Commission sometime in early 1981 and this CBCI No. 891 was among the CBCI's that were found to be missing.

Q Let me take you back further before 1981. Did you have the knowledge of this CBCI No. 891 before 1981?

A Yes, sir. This CBCI is an investment of Filriters required by the Insurance Commission as legal reserve of the company.

Q Legal reserve for the purpose of what?

A Well, you see, the Insurance companies are required to put up legal reserves under Section 213 of the Insurance Code equivalent to 40 percent of the premiums receipt and further, the Insurance Commission requires this reserve to be invested preferably in government securities or government bonds. This is how this CBCI came to be purchased by the company.”

It cannot, therefore, be taken out of the said fund, without violating the requirements of the law. Thus, the unauthorized use or distribution of the same by a corporate officer of Filriters cannot bind

the said corporation, not without the approval of its Board of Directors, and the maintenance of the required reserve fund.

Consequently, the title of Filriters over the subject certificate of indebtedness must be upheld over the claimed interest of Traders Royal Bank.

**ACCORDINGLY**, the Petition is **DISMISSED** and the Decision appealed from dated January 29, 1990 is hereby **AFFIRMED**.

**SO ORDERED.**

**Regalado, Romero and Mendoza, JJ., concur.**  
**Puno, J., took no part.**

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- [1] Justice Ricardo L. Pronove, Jr., ponente; concurred in by Justices Alfredo L. Benipayo and Serafin V.C. Guingona, p. 18, Rollo.
- [2] P. 143, Record.
- [3] Ibid., at p. 146.
- [4] Ibid., at p. 148.
- [5] P. 1, Record.
- [6] P. 75, Record.
- [7] Answer, p. 97, Record.
- [8] P. 315, Record.
- [9] Pp. 16-17, RTC Decision, p. 330, Rollo.
- [10] Annex "A", Petition, supra.
- [11] Court of Appeals Decision, pp. 18-19, Rollo.
- [12] Section 57, Negotiable Instruments Law.
- [13] Petition, Annex "A", pp. 21-22, Rollo.
- [14] Ibid.
- [15] Campos and Campos, Negotiable Instruments Law, p. 38, 1971 ed.
- [16] G.R. No. 97753, August 10, 1992, 212 SCRA 448.
- [17] Petition.
- [18] Yu vs. National Labor Relations Commission 245 SCRA 134.
- [19] Guatson International Travel and Tours, Inc. vs. National Labor Relations Commission, 230 SCRA 815.
- [20] 2 SCRA 632.
- [21] 76 Official Gazette 9370.
- [22] See Article 1883, Civil Code.
- [23] See Article 19, Civil Code.
- [24] Section 213. Every insurance company, other than life, shall maintain a reserve for unearned premiums on its policies in force, which shall be

charged as a liability in any determination of its financial condition. Such reserve shall be equal to forty percentum of the gross premiums, less returns and cancellations, received on policies or risks having more than a year to run; Provided That for marine cargo risks, the reserve shall be equal to forty per centum of the premiums written in the policies upon yearly risks, and the full amount of premiums written during the last two months of the calendar year upon all other marine risks not terminated. Presidential Decree No. 612 (The Insurance Code of the Philippines).

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