



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

**PHILIPPINE
BANK,**

NATIONAL

G.R. No. 214074

Petitioner,

Present:

- versus -

LEONEN, S.A.J.,
LAZARO-JAVIER,
M. LOPEZ,
J. LOPEZ, and
KHO, JR., JJ.

**MEDIAN
CORPORATION AND ELDON
INDUSTRIAL CORPORATION,**

Respondents.

Promulgated:

FEB 05 2024

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D E C I S I O N

KHO, JR., J.:

Before the Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court filed by petitioner Philippine National Bank (PNB) assailing the Decision² dated March 19, 2014 and the Resolution³ dated August 18, 2014 of the Court of Appeals (CA) in CA-G.R. SP No. 121782. The assailed CA rulings affirmed the Resolutions dated February 14, 2011⁴ and July 29, 2011⁵ issued by Branch 91, Regional Trial Court, Quezon City (RTC) which dismissed, without prejudice, PNB's counterclaim and denied its motion to implead Spouses Carlos and Fely Ley (Spouses Ley).

¹ *Rollo* pp. 13–33.

² *Id.* at 34–41. Penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Japar B. Dimaampao (now a Member of this Court) and Melchor Quirino C. Sadang of the Thirteenth Division, Court of Appeals, Manila.

³ *Id.* at 42–43. Penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Japar B. Dimaampao (now a Member of this Court) and Melchor Quirino C. Sadang of the Former Thirteenth Division, Court of Appeals, Manila.

⁴ *Id.* at 44–46. Penned by Presiding Judge Lita S. Tolentino-Genilo.

⁵ *Id.* at 168.

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The Facts

On November 2, 2010, respondents Median Container Corporation (Median) and Eldon Industrial Corporation (collectively, respondents) filed a complaint⁶ for Reformation of Instrument before the RTC. The complaint alleged that to finance the purchase of various goods needed for their businesses, they availed of a credit line with PNB in the amount of PHP 50 Million, with fixed amortization and interest. Instead of the usual promissory notes and other loan documents, PNB purportedly lured them into signing trust receipts, which did not reflect their real agreement, to coerce them as well as their officers to pay whatever billing sent to them under the pain of criminal prosecution.⁷

In its Answer with Counterclaim,⁸ PNB argued that the complaint should be dismissed because the trust receipts reflected their real agreement. It claimed that there was no enticement involved in the execution thereof because the provisions were freely agreed upon and voluntarily executed by both parties. It claimed that the complaint was a mere ploy on respondents' part to evade their obligations and escape possible criminal prosecution for estafa as they failed to turn over the proceeds of the sale of the goods or return the goods covered by the trust receipts in violation of the Trust Receipts Law. Thus, PNB sought to implead Spouses Ley, as President and Vice-President/Treasurer of Median, to hold them severally liable with respondents and collect from them the sum of PHP 31,059,616.29.⁹

The RTC Ruling

In a Resolution¹⁰ dated February 14, 2011, the RTC dismissed without prejudice PNB's counterclaim, and denied its motion to implead Spouses Ley.¹¹

The RTC ruled that PNB's counterclaim is permissive because PNB's counterclaim for payment of unpaid obligation is reasonably independent from the claim in respondents' complaint for reformation of instrument. As such, the RTC ruled that PNB's counterclaim can be the subject of a separate case without being barred by *res judicata*. Since PNB's counterclaim is permissive, the rules require payment of the prescribed docket fees within the reglementary period and filing of a certificate of non-forum shopping with counterclaim. PNB failed to comply with these requisites, hence, the RTC is barred from acquiring jurisdiction over PNB's permissive counterclaim. Accordingly, since it did not acquire jurisdiction over PNB's counterclaim, the motion to implead is improper.¹²

⁶ *Id.* at 132–140.

⁷ *Id.* at 35.

⁸ *Id.* at 141–159.

⁹ *Id.* at 35–36.

¹⁰ *Id.* at 44–46.

¹¹ *Id.* at 46.

¹² *Id.* at 45–46.

Dissatisfied with the RTC's ruling, PNB sought reconsideration but was denied in a Resolution¹³ dated July 29, 2011. Determined, it elevated the case before the CA *via* Petition for *Certiorari*.

The CA Ruling

In a Decision¹⁴ dated March 19, 2014, the CA dismissed PNB's *certiorari* petition for lack of merit.

The CA held that PNB's counterclaim for the recovery of the amount representing the proceeds of the sale of the goods covered by the trust receipts or the amount of goods which respondents failed to turn over is permissive. According to the CA, the evidence required to determine the real agreement of the parties, i.e., contract of loan or some other agreement, is different from that evidence needed to establish PNB's claim for unpaid obligations due to respondents' failure and/or refusal to turn over the proceeds of the sale of the goods covered by the trust receipts.¹⁵

Additionally, the CA highlighted that the issue in respondents' complaint, i.e., whether the trust receipts reflect the parties' real agreement, is different from the issue in the counterclaim, which is whether respondents are liable to pay the amount claimed by PNB.¹⁶

Since PNB's counterclaim is permissive, the CA ruled that the former was bound to pay the prescribed docket fees for the RTC to acquire jurisdiction, failing in which, the counterclaim shall be dismissed for nonpayment of docket fees as in this case. At any rate, the CA stressed that PNB is not without recourse as it can still file a separate action against respondents. Consequently, the CA declared that the RTC did not commit grave abuse of discretion in dismissing PNB's counterclaim and denying its motion to implead Spouses Ley.¹⁷

Aggrieved, PNB moved for reconsideration but was denied in a Resolution¹⁸ dated August 18, 2014. Hence, it filed the present Petition.

The Issue before the Court

The issue before the Court is whether the CA committed reversible

¹³ *Id.* at 168.

¹⁴ *Id.* at 34-41.

¹⁵ *Id.* at 39.

¹⁶ *Id.*

¹⁷ *Id.* at 39-40.

¹⁸ *Id.* at 42-43.

error in upholding the RTC's ruling that dismissed PNB's counterclaim and motion to implead Spouses Ley.

PNB maintains that its counterclaim, with motion to implead Spouses Ley, for the payment of the amount of PHP 31,059,616.29 representing respondents' obligation under the trust receipts is necessarily connected with and logically related to the latter's petition for reformation of said instruments since they require the same set of evidence and raise essentially the same issues.¹⁹ At any rate, PNB argues that the RTC should not have dismissed its counterclaim outright, asserting that the RTC should have instead directed it to pay the required docket fees.²⁰

Moreover, PNB insists that Spouses Ley are real parties-in-interest in its counterclaim who must therefore be impleaded in the case for a complete determination of the same. In this regard, it points out that Spouses Ley agreed to be jointly and severally liable with respondents to the latter's obligations under the trust receipts. As the creditor under said obligations, it can properly proceed against Spouses Ley as solidary debtors.²¹

In their Comment,²² respondents assert that PNB's counterclaim is permissive and hence, it should have paid the required docket fees within the 15-day reglementary period, failing in which justified the RTC in dismissing its counterclaim.²³

Additionally, they maintain that PNB's counterclaim is permissive since the same did not arise nor is connected to their action for reformation of instrument. They argue that their cause of action arose from their real agreement, i.e., loan, and not from the trust receipts. In contrast, PNB's cause of action arose precisely from said trust receipts. They likewise highlight that whatever the RTC decided on their action for reformation will not bar PNB from filing an action for collection based on the reformed document, i.e., based on their loan agreement. Should the RTC deny their petition, PNB can still file the action for collection based on the trust receipts.²⁴

Moreover, respondents argue that the evidence needed to support their claim and PNB's counterclaim differ. They point out that their action requires presentation of documents that will establish their real agreement as a loan. In contrast, PNB's counterclaim requires presentation of the trust receipts, credit memos, statements of account, etc. to prove that they obtained an obligation and that the same remains unpaid despite demand.²⁵

¹⁹ *Id.* at 23–27.

²⁰ *Id.* at 27.

²¹ *Id.* at 28–29.

²² *Id.* at 281–294.

²³ *Id.* at 284–285.

²⁴ *Id.* at 285–288.

²⁵ *Id.* at 288–289.

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Further, respondents assert that the RTC, as affirmed by the CA, correctly denied PNB's motion to implead Spouses Ley since whatever right it may have for contribution, indemnity, subrogation, or any other relief in its claim for collection of sum of money is separate and distinct from whatever obligation it may have in the action for reformation.²⁶

Finally, respondents stress that the RTC's ruling is in accordance with law; hence, the CA correctly dismissed PNB's petition for *certiorari* for failing to show any grave abuse of discretion on the part of the RTC.²⁷

Replying²⁸ to respondents' comment, PNB essentially repeats the arguments in its Petition, adding that if it is found that the trust receipts reflect the real intention of the parties, then collection of the obligation thereunder is proper.²⁹

The Court's Ruling

The Petition is without merit.

At the outset, the Court notes that PNB's arguments are mere rehash of those it raised before the CA, which have already been sufficiently addressed and resolved in its rulings. More significantly, the issues that PNB raises in the instant petition, i.e., whether its counterclaim is compulsory and whether Spouses Ley should have been impleaded, require a review of the pleadings and arguments raised, as well as the findings of the CA, including those of the RTC, which are not proper in a Rule 45 petition where only questions of law are allowed.³⁰

At any rate, the Court finds no reversible error on the part of the CA in upholding the RTC ruling that dismissed PNB's counterclaim, including the motion to implead Spouses Ley, for lack of merit.

It bears stressing that under Rule 45 of the Rules of Court, the Court's review of the CA Decision is discretionary and will be granted only when there are special and important reasons for it such as when the court *a quo* has: (a) decided a question of substance, not theretofore determined by the Supreme Court, or has decided it in a way probably not in accord with law or with the applicable decisions of the Supreme Court; or (b) so far departed from the accepted and usual course of judicial proceedings, or so far

²⁶ *Id.* at 289–290.

²⁷ *Id.* at 290–291.

²⁸ *Id.* at 350–366.

²⁹ *Id.* at 355–357.

³⁰ See Section 1, Rule 45 of the Rules of Court.

sanctioned such departure by a lower court, as to call for an exercise of the power of supervision.³¹

None of these reasons were shown to exist in this case.

A counterclaim is defined as any claim for money or other relief which a defending party may have against an opposing party.³² A counterclaim is considered compulsory if: (a) it arises out of, or is necessarily connected with, the transaction or occurrence which is the subject matter of the opposing party's claim; (b) it does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction; and (c) the court has jurisdiction to entertain the claim.³³ In other words, a compulsory counterclaim cannot be made the subject of a separate action but should be asserted in the same suit involving the same transaction or occurrence giving rise to it.³⁴

To determine whether a counterclaim is compulsory, the following tests apply: (1) Are the issues of fact and law raised by the claim and counterclaim largely the same?; (2) Would *res judicata* bar a subsequent suit on defendant's claim absent the compulsory counterclaim rule?; (3) Will substantially the same evidence support or refute plaintiff's claim as well as defendant's counterclaim?; and (4) Is there any logical relation between the claim and the counterclaim?³⁵ A positive answer to all four questions would indicate that the counterclaim is compulsory. Otherwise, it is permissive.³⁶

Another test established by case law is the "compelling test of compulsoriness" which requires "a logical relationship between the claim and counterclaim, that is, where conducting separate trials of the respective claims of the parties would entail a substantial duplication of effort and time by the parties and the court."³⁷

Applying the foregoing standards, the Court agrees that PNB's counterclaim for collection of sum of money is merely permissive.

First, the issue in the main case, i.e., whether the parties' real agreement is a loan or some other contract and not a trust receipt agreement, is entirely different from the issues in the counterclaim, i.e., whether respondents secured an obligation from PNB, the total amount due, and that they refused

³¹ RULES OF COURT, Rule 45, Sec. 6.

³² *Garcia v. Drilon*, 712 Phil. 44 (2013) [Per J. Perlas-Bernabe, *En Banc*].

³³ *Jose v. Quesada-Jose*, G.R. No. 249434, March 15, 2023 [Per C.J. Gesmundo, First Division].

³⁴ *Visayan Packing Corporation v. Reparations Commission*, 239 Phil. 527 (1987) [Per J. Narvasa, First Division].

³⁵ See *Lusala v. National Food Authority*, 767 Phil. 285, 306–307 (2015) [Per J. Brion, Second Division]; and *Korea Exchange Bank v. Gonzales*, 496 Phil. 127, 144 (2005) [Per J. Callejo, Sr., Second Division].

³⁶ See *Bungcayao, Sr. v. Fort Ilocandia Property Holdings*, 632 Phil. 391, 398–399 (2010) [Per J. Carpio, Second Division]; and *North Greenhills Association, Inc. v. Atty. Morales*, 816 Phil. 673, 692–693 (2017) [Per J. Mendoza, Second Division].

³⁷ See *Alday v. FGU Insurance Corporation*, 402 Phil. 962, 972 (2001) [Per J. Gonzaga-Reyes, Third Division], citing *Quintanilla v. Court of Appeals*, 344 Phil. 811 (1997) [Per J. Francisco, Third Division].

to pay despite demand.

Case law characterizes reformation of an instrument as a remedy in equity where a written instrument already executed is allowed by law to be reformed or construed to express or conform to the real intention of the parties. The rationale of the doctrine is that it would be unjust and inequitable to allow the enforcement of a written instrument that does not express or reflect the real intention of the parties.³⁸ To support an action for reformation, the petitioner/complainant must present evidence establishing the alleged real agreement between the parties, in addition to the instrument sought to be reformed.

In contrast, an action for collection of sum of money seeks to recover from the respondent a sum of money arising out of a transaction that creates an obligation.

Second, the grant of respondents' prayer for reformation is not contingent nor dependent upon establishing PNB's counterclaim for payment of their obligation, such that conducting separate trials will not result in the substantial duplication of the time and effort of the court and the parties. Respondents' action for reformation of instrument requires a determination of the parties' real agreement whereas PNB's counterclaim requires a determination of the total amount of respondents' unpaid obligation under the trust receipts and default in the payment thereof.

Notably, respondents did not deny their obligation to PNB, but rather simply argued that their obligation arose from a loan or some other agreement. Thus, regardless of the outcome of the case for reformation, i.e., whether the petition for reformation of instrument is granted (or denied), respondents can still be bound to pay their unpaid obligation to PNB. Simply put, should the action for reformation be granted, respondents can still be held liable to pay the loan, with any accruing interests and/or penalties; conversely, should the petition for reformation be denied, respondents can be held liable to turn over the proceeds of the sale of the goods or the goods themselves, pursuant to the trust receipt agreement.

Third, the evidence required to prove respondents' action for reformation is likewise different from the evidence required to prove PNB's counterclaim for sum of money. To establish their petition for reformation, respondents must present evidence showing that what the parties intended was a loan or some other agreement other than a trust receipt arrangement. This may include, among others, the credit agreement and the several renewal agreements thereof. In contrast, to prove its claim for payment of sum of money, PNB must present evidence to establish respondents' remaining unpaid obligation under the trust receipts and default in the payment thereof,

³⁸ *Spouses Rosario v. Alvar*, 817 Phil. 994, 1006 (2017) [Per J. Del Castillo, First Division].

such as statements of account and demand letters, in addition to the trust receipt agreements.

Lastly, since respondents and PNB's respective causes of action arose from completely different occurrences, the latter would not have been barred by *res judicata* had they opted to litigate its counterclaim in a separate proceeding.

On this score, it bears highlighting that PNB's cause of action for payment of sum of money already existed even before the filing of respondents' petition against the former. Respondent filed the petition for reformation on November 2, 2010; on the other hand, PNB's cause of action for collection of money arose on August 24, 2010 when it sent its final demand against respondents for payment of their obligation under the trust receipts. Incidentally, all the subject trust receipts matured in 2002.³⁹ Since PNB's complaint for sum of money is not an incident of respondents' petition for reformation, the same can be filed as a separate case against them.

Accordingly, being permissive, PNB's counterclaim required the payment of docket fees and a certificate of non-forum shopping with its counterclaim. Case law settles that for the trial court to acquire jurisdiction, the counterclaimant must comply with the requirements for initiatory pleadings. This includes payment of the required docket fees within the reglementary or prescriptive period and filing of a certificate of non-forum shopping with its counterclaim. The failure to comply with these requisites will justify the trial court in dismissing the permissive counterclaim for failure to acquire jurisdiction.⁴⁰

In this case, there is nothing in the records that show that PNB paid the required docket fees and filed the certificate of non-forum shopping with its counterclaim within the reglementary or prescriptive period. Moreover, despite the RTC's ruling finding its counterclaim permissive, PNB simply reiterated its position that the same is compulsory in its motion for reconsideration without any attempt to comply with the foregoing requisites. In fact, PNB simply reiterated the same arguments before the CA, in its Petition for *Certiorari*, as it charged the RTC with grave abuse of discretion in dismissing its permissive counterclaim. Notably, it is only after the CA dismissed its Petition for *Certiorari* that PNB claimed the lack of opportunity given by the RTC for it to pay the docket fees before its counterclaim was dismissed. Had it believed that it should have at least been given an opportunity to comply with the said requisites, it should have outrightly argued the same in its motion for reconsideration before the RTC to correct the perceived jurisdictional error.

³⁹ *Rollo*, pp. 128-129.

⁴⁰ See *Southstar Construction and Development Corporation v. Philippine Estates Corporation*, G.R. No. 218966, August 1, 2022 [Per J. Gaerlan, Third Division]; *Bignay Ex-IM Philippines, Inc. v. Union Bank of the Philippines*, 726 Phil. 514, 524 (2014) [Per J. Del Castillo, Second Division]; *Vda. De Aguilar v. Spouses Alfaro*, 637 Phil. 131, 146 (2010) [Per J. Del Castillo, First Division].

Relatedly, since PNB's motion to implead Spouses Ley was anchored on its permissive counterclaim, the Court rules that the dismissal of the latter factually and logically carried the denial of said motion. Under these circumstances, the Court is hard-pressed to conclude that the CA reversibly erred in dismissing PNB's petition for *certiorari*.

Grave abuse of discretion has been defined as such capricious and whimsical exercise of judgment as is equivalent to lack of jurisdiction, or the exercise of power in an arbitrary or despotic manner by reason of passion, prejudice, or personal hostility. The abuse must be in a manner so patent and so gross as to amount to an evasion of a positive duty or to a virtual refusal to perform the duty enjoined by law, or to act at all in contemplation of law as where the power is exercised in an arbitrary and despotic manner by reason of passion or hostility.⁴¹

Other than its bare assertions and insinuations that its counterclaim is compulsory, PNB failed to clearly demonstrate and substantiate the alleged grave abuse of discretion on the part of the RTC. As the *certiorari* petitioner before the CA, PNB was bound to show that in dismissing its permissive counterclaim, the RTC acted in an arbitrary or despotic manner by reason of passion, prejudice, or personal hostility, or in a manner so patent and so gross as to amount to an evasion of a positive duty or to a virtual refusal to perform the duty enjoined by law, or to act at all in contemplation of law. PNB's failure to discharge its burden of proving grave abuse of discretion on the part of the RTC justified the CA in dismissing its Petition for *Certiorari*.

All told, the Court finds that PNB's counterclaim is permissive. As such, the CA did not commit any reversible error in dismissing the petition for *certiorari* before it for failing to show grave abuse of discretion on the part of the RTC in dismissing PNB's permissive counterclaim. Consequently, the Court is constrained to deny the petition.

FOR THESE REASONS, the Court resolves to **DENY** the Petition for Review on *Certiorari*. The Decision dated March 19, 2014 and the Resolution dated August 18, 2014 of the Court of Appeals in CA-G.R. SP No. 121782 are hereby **AFFIRMED**.

SO ORDERED.


ANTONIO T. KHO, JR.

Associate Justice

⁴¹ See *Macasil v. Fraud Audit and Investigation Office (FAIO)*, G.R. No. 226898, May 11, 2021 [Per J. M. Lopez, *En Banc*]. See also *Araullo v. Ombudsman*, 740 Phil. 131, 140 (2014) [Per J. Reyes, First Division].

WE CONCUR:

I join the dissent of Justice Lazaro-Javier

MARVIC M.V.F. LEONEN

Senior Associate Justice

Chairperson

Pls. see Dissent

AMY C. LAZARO-JAVIER

Associate Justice

MARLOX LOPEZ

Associate Justice

JHOSEP LOPEZ

Associate Justice

ATTESTATION

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

MARVIC M.V.F. LEONEN

Senior Associate Justice

Chairperson, Second Division

CERTIFICATION

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

ALEXANDER G. GESMUNDO

Chief Justice

G.R. No. 214074 (PHILIPPINE NATIONAL BANK, Petitioner, v. MEDIAN CONTAINER CORPORATION AND ELDON INDUSTRIAL CORPORATION, Respondents.)

Promulgated:

FEB 05 2024



X

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DISSENT

LAZARO-JAVIER, J.:

I take exception to the *ponencia's* ruling that the counterclaim of petitioner Philippine National Bank (PNB) in the complaint for reformation of respondents Median Container Corporation and Eldon Industrial Corporation is permissive and not compulsory.

In *Gojo v. Goyala*,¹ the Court ordained that the reformation of an instrument is a compulsory counterclaim to a case filed which alleged the fulfillment of the conditions in a contract such as the expiration of a right to repurchase. This is because the two actions arose out of or are necessarily connected with the transaction or occurrence that is the subject matter of the complaint:

In the instant case, there can be no doubt that appellant's counterclaim was a compulsory one inasmuch as it arises out of or is necessarily connected with transaction or occurrence that is the subject matter of the complaint; the complaint alleged that the right of appellee to repurchase the property in question had already expired and asked for an order of consolidation; on the other hand, appellant's counterclaim was for reformation of the deed claiming that it was only a mortgage. Thus the counterclaim was clearly inconsistent with and directly controverted the whole theory and basic allegations of the complaint. In consequence, appellant's complaint stood as the answer to appellee's counterclaim; hence, the incorrectness of the trial court's order declaring the appellant in default in regard to said counterclaim is evident.

Similarly, the counterclaim of PNB, which seeks to collect the amount due it under the trust agreement **cannot be deemed to have been sourced from a separate obligation, albeit respondents seek the reformation of the same contract into a mere contract of loan.** More, the said counterclaim is relevant to the defense of PNB that the contract is one of trust.

¹ 146 Phil. 522, 530 (1970) [Per J. Barredo].




Too, as stated in the *ponencia*, one of the factors that must be fulfilled in determining whether a counterclaim is compulsory is if *res judicata* would bar a subsequent suit on defendant's claim. In this regard, it has been previously ruled in *Spouses Abines v. Bank of the Philippine Islands*,² that a judgment in a collection case would be *res judicata* in the reformation case, *viz.*:

Clearly then, the resolution of both cases revolve on the validity and enforceability of the promissory notes and real estate mortgages and foreclosure proceedings. A judgment in the COLLECTION CASE will be *res judicata* in the REFORMATION CASE and *vice versa*. The same evidence would be presented and the same subject matter would be litigated. Thus, in *Casil v. Court of Appeals*, where the petitioner filed a case against private respondent for the enforcement of their agreement while private respondent subsequently filed a case against petitioner for the rescission of this same agreement, we ruled that the first case would constitute *res judicata* in the second case.

Based on the foregoing, it is my position that PNB's claim to collect the amount due it from respondents is a compulsory counterclaim.

Another. Treating the counterclaim of PNB as compulsory rather than permissive is compatible with judicial economy.

THUS, I vote to **GRANT** the Petition for Review on *Certiorari*. The Decision dated March 19, 2014, and Resolution dated August 18, 2014 of the Court of Appeals in CA-G.R. SP No. 121782 should be **REVERSED**.


AMY C. LAZARO-JAVIER

² 517 Phil. 609, 617-618 (2006) [Per J. Ynares-Santiago, First Division].