



Republic of the Philippines
 Supreme Court
 Manila

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 WILFREDO V. LAPITAN
 Division Clerk of Court
 Third Division

SEP 09 2016

THIRD DIVISION

GLORIA S. DY,

G.R. No. 189081

Petitioner,

Present:

-versus-

PEOPLE OF THE PHILIPPINES,
 MANDY COMMODITIES CO.,
 INC., represented by its President,
 WILLIAM MANDY,

VELASCO, JR., J., *Chairperson*,
 PERALTA,
 PEREZ,
 REYES, and
 JARDELEZA, JJ.

Respondents.

Promulgated:

August 10, 2016

X ----- ----- X

DECISION

JARDELEZA, J.:

Our law states that every person criminally liable for a felony is also civilly liable. This civil liability *ex delicto* may be recovered through a civil action which, under our Rules of Court, is deemed instituted with the criminal action. While they are actions mandatorily fused,¹ they are, in truth, separate actions whose existences are not dependent on each other. Thus, civil liability *ex delicto* survives an acquittal in a criminal case for failure to prove guilt beyond reasonable doubt. However, the Rules of Court limits this mandatory fusion to a civil action for the recovery of civil liability *ex delicto*. It, by no means, includes a civil liability arising from a different source of obligation, as in the case of a contract. Where the civil liability is *ex contractu*, the court hearing the criminal case has no authority to award damages.

The Case

This is a Petition for Review on *Certiorari* under Rule 45 of the Rules of Court. Petitioner Gloria S. Dy (petitioner) seeks the reversal of the decision of the Court of Appeals (CA) dated February 25, 2009 (Assailed

¹ Bautista, *The Confusing Fusion of A Civil Claim In a Criminal Proceeding*, 79 Phil. L.J 640 (2004), pp. 361-401.

Decision)² ordering her to pay Mandy Commodities Company, Inc. (MCCI) in the amount of ₱21,706,281.00.³

The Facts

Petitioner was the former General Manager of MCCI. In the course of her employment, petitioner assisted MCCI in its business involving several properties. One such business pertained to the construction of warehouses over a property (Numancia Property) that MCCI leased from the Philippine National Bank (PNB). Sometime in May 1996, in pursuit of MCCI's business, petitioner proposed to William Mandy (Mandy), President of MCCI, the purchase of a property owned by Pantranco. As the transaction involved a large amount of money, Mandy agreed to obtain a loan from the International China Bank of Commerce (ICBC). Petitioner represented that she could facilitate the approval of the loan. True enough, ICBC granted a loan to MCCI in the amount of ₱20,000,000.00, evidenced by a promissory note. As security, MCCI also executed a chattel mortgage over the warehouses in the Numancia Property. Mandy entrusted petitioner with the obligation to manage the payment of the loan.⁴

In February 1999, MCCI received a notice of foreclosure over the mortgaged property due to its default in paying the loan obligation.⁵ In order to prevent the foreclosure, Mandy instructed petitioner to facilitate the payment of the loan. MCCI, through Mandy, issued 13 Allied Bank checks and 12 AsiaTrust Bank checks in varying amounts and in different dates covering the period from May 18, 1999 to April 4, 2000.⁶ The total amount of the checks, which were all payable to cash, was ₱21,706,281.00. Mandy delivered the checks to petitioner. Mandy claims that he delivered the checks with the instruction that petitioner use the checks to pay the loan.⁷ Petitioner, on the other hand, testified that she encashed the checks and returned the money to Mandy.⁸ ICBC eventually foreclosed the mortgaged property as MCCI continued to default in its obligation to pay. Mandy claims that it was only at this point in time that he discovered that not a check was paid to ICBC.⁹

Thus, on October 7, 2002, MCCI, represented by Mandy, filed a Complaint-Affidavit for *Estafa*¹⁰ before the Office of the City Prosecutor of Manila. On March 3, 2004, an Information¹¹ was filed against petitioner before the Regional Trial Court (RTC) Manila.

² Penned by Arcangelita M. Romilla-Lontok and concurred in by Associate Justices Josefina Guevara-Salonga and Romeo F. Barza, *rollo*, pp. 39-48.

³ *Id.* at 41, 48.

⁴ Records, pp. 407-409.

⁵ *Id.* at 409.

⁶ *Id.* at 452-476.

⁷ TSN, July 12, 2004, p. 44.

⁸ TSN, May 4, 2005, p. 32.

⁹ Records, pp. 409-410.

¹⁰ *Id.* at 13-23.

¹¹ *Id.* at 1-3.



After a full-blown trial, the RTC Manila rendered a decision¹² dated November 11, 2005 (RTC Decision) acquitting petitioner. The RTC Manila found that while petitioner admitted that she received the checks, the prosecution failed to establish that she was under any obligation to deliver them to ICBC in payment of MCCI's loan. The trial court made this finding on the strength of Mandy's admission that he gave the checks to petitioner with the agreement that she would encash them. Petitioner would then pay ICBC using her own checks. The trial court further made a finding that Mandy and petitioner entered into a contract of loan.¹³ Thus, it held that the prosecution failed to establish an important element of the crime of *estafa*—misappropriation or conversion. However, while the RTC Manila acquitted petitioner, it ordered her to pay the amount of the checks. The dispositive portion of the RTC Decision states —

WHEREFORE, the prosecution having failed to establish the guilt of the accused beyond reasonable doubt, judgment is hereby rendered ACQUITTING the accused of the offense charged. With costs de officio.

The accused is however civilly liable to the complainant for the amount of P21,706,281.00.

SO ORDERED.¹⁴

Petitioner filed an appeal¹⁵ of the civil aspect of the RTC Decision with the CA. In the Assailed Decision,¹⁶ the CA found the appeal without merit. It held that the acquittal of petitioner does not necessarily absolve her of civil liability. The CA said that it is settled that when an accused is acquitted on the basis of reasonable doubt, courts may still find him or her civilly liable if the evidence so warrant. The CA explained that the evidence on record adequately prove that petitioner received the checks as a loan from MCCI. Thus, preventing the latter from recovering the amount of the checks would constitute unjust enrichment. Hence, the Assailed Decision ruled —

WHEREFORE, in view of the foregoing, the appeal is DENIED. The Decision dated November 11, 2005 of the Regional Trial Court, Manila, Branch 33 in Criminal Case No. 04-224294 which found Gloria Dy civilly liable to William Mandy is AFFIRMED.

SO ORDERED.¹⁷

The CA also denied petitioner's motion for reconsideration in a resolution¹⁸ dated August 3, 2009.

¹² *Id.* at 406-417.

¹³ *Id.* at 415-416.

¹⁴ *Id.* at 417.

¹⁵ *Rollo*, pp. 68-259.

¹⁶ *Supra* note 2.

¹⁷ *Rollo*, p. 48, emphasis in the original.

¹⁸ *Id.* at 67.



Hence, this Petition for Review on *Certiorari* (Petition). Petitioner argues that since she was acquitted for failure of the prosecution to prove all the elements of the crime charged, there was therefore no crime committed.¹⁹ As there was no crime, any civil liability *ex delicto* cannot be awarded.

The Issues

The central issue is the propriety of making a finding of civil liability in a criminal case for *estafa* when the accused is acquitted for failure of the prosecution to prove all the elements of the crime charged.

The Ruling of the Court

We grant the petition.

Civil Liability Arising From Crime

Our laws recognize a bright line distinction between criminal and civil liabilities. A crime is a liability against the state. It is prosecuted by and for the state. Acts considered criminal are penalized by law as a means to protect the society from dangerous transgressions. As criminal liability involves a penalty affecting a person's liberty, acts are only treated criminal when the law clearly says so. On the other hand, civil liabilities take a less public and more private nature. Civil liabilities are claimed through civil actions as a means to enforce or protect a right or prevent or redress a wrong.²⁰ They do not carry with them the imposition of imprisonment as a penalty. Instead, civil liabilities are compensated in the form of damages.

Nevertheless, our jurisdiction recognizes that a crime has a private civil component. Thus, while an act considered criminal is a breach of law against the State, our legal system allows for the recovery of civil damages where there is a private person injured by a criminal act. It is in recognition of this dual nature of a criminal act that our Revised Penal Code provides that every person criminally liable is also civilly liable.²¹ This is the concept of civil liability *ex delicto*.

This is echoed by the New Civil Code when it recognizes acts or omissions punished by law as a separate source of obligation.²² This is reinforced by Article 30 of the same code which refers to the filing of a

¹⁹ *Id.* at 21-27.

²⁰ RULES OF COURT, Rule 1, Sec. 3, par. (a).

²¹ REVISED PENAL CODE, Art. 100.

²² CIVIL CODE, Art. 1157. Obligations arise from:

1. Law;
 2. Contracts;
 3. Quasi-contracts;
 4. Acts or omissions punished by law; and
 5. Quasi-delicts.
- 

separate civil action to demand civil liability arising from a criminal offense.²³

The Revised Penal Code fleshes out this civil liability in Article 104²⁴ which states that it includes restitution, reparation of damage caused and indemnification for consequential damages.

Rules of procedure for criminal and civil actions involving the same act or omission

The law and the rules of procedure provide for a precise mechanism in instituting a civil action pertaining to an act or omission which is also subject of a criminal case. Our Rules of Court prescribes a kind of fusion such that, subject to certain defined qualifications, when a criminal action is instituted, the civil action for the recovery of the civil liability arising from the offense is deemed instituted as well.²⁵

However, there is an important difference between civil and criminal proceedings that require a fine distinction as to how these twin actions shall proceed. These two proceedings involve two different standards of proof. A criminal action requires proof of guilt beyond reasonable doubt while a civil action requires a lesser quantum of proof, that of preponderance of evidence. This distinction also agrees with the essential principle in our legal system that while a criminal liability carries with it a corresponding civil liability, they are nevertheless separate and distinct. In other words, these two liabilities may co-exist but their existence is not dependent on each other.²⁶

The Civil Code states that when an accused in a criminal prosecution is acquitted on the ground that his guilt has not been proven beyond reasonable doubt, a civil action for damages for the same act or omission may be filed. In the latter case, only preponderance of evidence is required.²⁷ This is supported by the Rules of Court which provides that the extinction of the criminal action does not result in the extinction of the corresponding

²³ CIVIL CODE, Art. 30. When a separate civil action is brought to demand civil liability arising from a criminal offense, and no criminal proceedings are instituted during the pendency of the civil case, a preponderance of evidence shall likewise be sufficient to prove the act complained of.

²⁴ REVISED PENAL CODE, Art. 104. *What is included in civil liability.*—The civil liability established in articles 100, 101, 102 and 103 of this Code includes:

1. Restitution;
2. Reparation of the damage caused;
3. Indemnification for consequential damages.

²⁵ RULES OF COURT, Rule 111, Sec. 1, par. (a). See also footnote 1.

²⁶ *Supra* note 1.

²⁷ CIVIL CODE, Art. 29. When the accused in a criminal prosecution is acquitted on the ground that his guilt has not been proved beyond reasonable doubt, a civil action for damages for the same act or omission may be instituted. Such action requires only a preponderance of evidence. Upon motion of the defendant, the court may require the plaintiff to file a bond to answer for damages in case the complaint should be found to be malicious.

If in a criminal case the judgment of acquittal is based upon reasonable doubt, the court shall so declare. In the absence of any declaration to that effect, it may be inferred from the text of the decision whether or not the acquittal is due to that ground.



civil action.²⁸ The latter may only be extinguished when there is a “finding in a final judgment in the criminal action that the act or omission from which the civil liability may arise did not exist.”²⁹ Consistent with this, the Rules of Court requires that in judgments of acquittal, the court must state whether “the evidence of the prosecution absolutely failed to prove the guilt of the accused or merely failed to prove his guilt beyond reasonable doubt. In either case, the judgment shall determine if the act or omission from which the civil liability might arise did not exist.”³⁰

Thus, whether an exoneration from the criminal action should affect the corresponding civil action depends on the varying kinds of acquittal. In *Manantan v. Court of Appeals*,³¹ we explained —

Our law recognizes two kinds of acquittal, with different effects on the civil liability of the accused. First is an acquittal on the ground that the accused is not the author of the act or omission complained of. This instance closes the door to civil liability, for a person who has been found to be not the perpetrator of any act or omission cannot and can never be held liable for such act or omission. There being no *delict*, civil liability *ex delicto* is out of the question, and the civil action, if any, which may be instituted must be based on grounds other than the *delict* complained of. This is the situation contemplated in Rule 111 of the Rules of Court. The second instance is an acquittal based on reasonable doubt on the guilt of the accused. In this case, even if the guilt of the accused has not been satisfactorily established, he is not exempt from civil liability which may be proved by preponderance of evidence only. This is the situation contemplated in Article 29 of the Civil Code, where the civil action for damages is “for the same act or omission.” Although the two actions have different purposes, the matters discussed in the civil case are similar to those discussed in the criminal case. However, the judgment in the criminal proceeding cannot be read in evidence in the civil action to establish any fact there determined, even though both actions involve the

²⁸ RULES OF COURT, Rule 111, Sec. 2. *When separate civil action is suspended.*—After the criminal action has been commenced, the separate civil action arising therefrom cannot be instituted until final judgment has been entered in the criminal action.

If the criminal action is filed after the said civil action has already been instituted, the latter shall be suspended in whatever stage it may be found before judgment on the merits. The suspension shall last until final judgment is rendered in the criminal action. Nevertheless, before judgment on the merits is rendered in the civil action, the same may, upon motion of the offended party, be consolidated with the criminal action in the court trying the criminal action. In case of consolidation, the evidence already adduced in the civil action shall be deemed automatically reproduced in the criminal action without prejudice to the right of the prosecution to cross-examine the witnesses presented by the offended party in the criminal case and of the parties to present additional evidence. The consolidated criminal and civil actions shall be tried and decided jointly.

During the pendency of the criminal action, the running of the period of prescription of the civil action which cannot be instituted separately or whose proceeding has been suspended shall be tolled.

The extinction of the penal action does not carry with it extinction of the civil action. However, the civil action based on *delict* may be deemed extinguished if there is a finding in a final judgment in the criminal action that the act or omission from which the civil liability may arise did not exist.

²⁹ *Id.*

³⁰ RULES OF COURT, Rule 120, Sec. 2.

³¹ G.R. No. 107125, January 29, 2001, 350 SCRA 387.

same act or omission. The reason for this rule is that the parties are not the same and secondarily, different rules of evidence are applicable. Hence, notwithstanding herein petitioner's acquittal, the Court of Appeals in determining whether Article 29 applied, was not precluded from looking into the question of petitioner's negligence or reckless imprudence.³²

In *Dayap v. Sendiong*,³³ we further said —

The acquittal of the accused does not automatically preclude a judgment against him on the civil aspect of the case. The extinction of the penal action does not carry with it the extinction of the civil liability where: (a) the acquittal is based on reasonable doubt as only preponderance of evidence is required; (b) the court declares that the liability of the accused is only civil; and (c) the civil liability of the accused does not arise from or is not based upon the crime of which the accused is acquitted. However, the civil action based on delict may be deemed extinguished if there is a finding on the final judgment in the criminal action that the act or omission from which the civil liability may arise did not exist or where the accused did not commit the acts or omission imputed to him.³⁴

Hence, a civil action filed for the purpose of enforcing civil liability *ex delicto*, even if mandatorily instituted with the corresponding criminal action, survives an acquittal when it is based on the presence of reasonable doubt. In these instances, while the evidence presented does not establish the fact of the crime with moral certainty, the civil action still prevails for as long as the greater weight of evidence tilts in favor of a finding of liability. This means that while the mind of the court cannot rest easy in penalizing the accused for the commission of a crime, it nevertheless finds that he or she committed or omitted to perform acts which serve as a separate source of obligation. There is no sufficient proof that the act or omission is criminal beyond reasonable doubt, but there is a preponderance of evidence to show that the act or omission caused injury which demands compensation.

Civil Liability Ex Delicto in Estafa Cases

Our laws penalize criminal fraud which causes damage capable of pecuniary estimation through *estafa* under Article 315 of the Revised Penal Code. In general, the elements of *estafa* are:

- (1) That the accused defrauded another (a) by abuse of confidence, or (b) by means of deceit; and

³² *Id.* at 397-398.

³³ G.R. No. 177960, January 29, 2009, 577 SCRA 134.

³⁴ *Id.* at 148.

- (2) That damage or prejudice capable of pecuniary estimation is caused to the offended party or third person.

The essence of the crime is the unlawful abuse of confidence or deceit in order to cause damage. As this Court previously held, “the element of fraud or bad faith is indispensable.”³⁵ Our law abhors the act of defrauding another person by abusing his trust or deceiving him, such that, it criminalizes this kind of fraud.

Article 315 of the Revised Penal Code identifies the circumstances which constitute *estafa*. Article 315, paragraph 1 (b) states that *estafa* is committed by abuse of confidence —

Art. 315. *Swindling (estafa)*.—x x x (b) By misappropriating or converting, to the prejudice of another, money, goods, or any other personal property received by the offender in trust or on commission, or for administration, or under any other obligation involving the duty to make delivery of or to return the same, even though such obligation be totally or partially guaranteed by a bond; or by denying having received such money, goods, or other property.

In this kind of *estafa*, the fraud which the law considers as criminal is the act of misappropriation or conversion. When the element of misappropriation or conversion is missing, there can be no *estafa*. In such case, applying the foregoing discussions on civil liability *ex delicto*, there can be no civil liability as there is no act or omission from which any civil liability may be sourced. However, when an accused is acquitted because a reasonable doubt exists as to the existence of misappropriation or conversion, then civil liability may still be awarded. This means that, while there is evidence to prove fraud, such evidence does not suffice to convince the court to the point of moral certainty that the act of fraud amounts to *estafa*. As the act was nevertheless proven, albeit without sufficient proof justifying the imposition of any criminal penalty, civil liability exists.

In this case, the RTC Manila acquitted petitioner because the prosecution failed to establish by sufficient evidence the element of misappropriation or conversion. There was no adequate evidence to prove that Mandy gave the checks to petitioner with the instruction that she will use them to pay the ICBC loan. Citing Mandy’s own testimony in open court, the RTC Manila held that when Mandy delivered the checks to petitioner, their agreement was that it was a “sort of loan.”³⁶ In the dispositive portion of the RTC Decision, the RTC Manila ruled that the prosecution “failed to establish the guilt of the accused beyond reasonable doubt.”³⁷ It then proceeded to order petitioner to pay the amount of the loan.

³⁵ *People v. Singson*, G.R. No. 75920, November 12, 1992, 215 SCRA 534, 538.

³⁶ Records, pp. 416-416.

³⁷ *Id.* at 417.

The ruling of the RTC Manila was affirmed by the CA. It said that “[t]he acquittal of Gloria Dy is anchored on the ground that her guilt was not proved beyond reasonable doubt - not because she is not the author of the act or omission complained of. x x x The trial court found no trickery nor deceit in obtaining money from the private complainant; instead, it concluded that the money obtained was undoubtedly a loan.”³⁸

Our jurisprudence on this matter diverges.

Earlier cases ordered the dismissal of the civil action for recovery of civil liability *ex delicto* whenever there is a finding that there was no *estafa* but rather an obligation to pay under a contract. In *People v. Pantig*,³⁹ this Court affirmed the ruling of the lower court acquitting Pantig, but revoked the portion sentencing him to pay the offended party the amount of money alleged to have been obtained through false and fraudulent representations, thus —

The trial court found as a fact that the sum of ₱1,200, ordered to be paid in the judgment of acquittal, was received by the defendant-appellant as loan. This finding is inconsistent with the existence of the criminal act charged in the information. **The liability of the defendant for the return of the amount so received arises from a civil contract, not from a criminal act, and may not be enforced in the criminal case.**

The portion of the judgment appealed from, which orders the defendant-appellant to pay the sum of ₱1,200 to the offended party, is hereby revoked, without prejudice to the filing of a civil action for the recovery of the said amount.⁴⁰

This was also the import of the ruling in *People v. Singson*.⁴¹ In that case, this Court found that “the evidence [was] not sufficient to establish the existence of fraud or deceit on the part of the accused. x x x And when there is no proven deceit or fraud, there is no crime of *estafa*.”⁴² While we also said that the established facts may prove Singson’s civil liability (obligation to pay under a contract of sale), we nevertheless made no finding of civil liability because “our mind cannot rest easy on the certainty of guilt”⁴³ considering the above finding. The dispositive portion stated that Singson is acquitted “without prejudice to any civil liability which may be established in a civil case against her.”⁴⁴

³⁸ Rollo, p. 45.

³⁹ 97 Phil. 748 (1955).

⁴⁰ *Id.* at 750, emphasis supplied.

⁴¹ G.R. No. 75920, November 12, 1992, 215 SCRA 534.

⁴² *Id.* at 538-539.

⁴³ *Id.* at 539.

⁴⁴ *Id.*; See also *United States v. Ador Djonisio*, 35 Phil. 141, 143-144 (1916). In this case, while this Court convicted the accused for *estafa*, it refused to order him to pay the civil liabilities claimed by private complainant, explaining that —

However, our jurisprudence on the matter appears to have changed in later years.

In *Eusebio-Calderon v. People*,⁴⁵ this Court affirmed the finding of the CA that Calderon “did not employ trickery or deceit in obtaining money from the private complainants, instead, it concluded that the money obtained was undoubtedly loans for which [Calderon] paid interest.”⁴⁶ Thus, this Court upheld Calderon’s acquittal of *estafa*, but found her civilly liable for the principal amount borrowed from the private complainants.⁴⁷

The ruling was similar in *People v. Cuyugan*.⁴⁸ In that case, we acquitted Cuyugan of *estafa* for failure of the prosecution to prove fraud. We held that the transaction between Cuyugan and private complainants was a loan to be used by Cuyugan in her business. Thus, this Court ruled that Cuyugan has the obligation, which is civil in character, to pay the amount borrowed.⁴⁹

We hold that the better rule in ascertaining civil liability in *estafa* cases is that pronounced in *Pantig* and *Singson*. The rulings in these cases are more in accord with the relevant provisions of the Civil Code, and the Rules of Court. They are also logically consistent with this Court’s pronouncement in *Manantan*.

Under *Pantig* and *Singson*, whenever the elements of *estafa* are not established, and that the delivery of any personal property was made pursuant to a contract, any civil liability arising from the *estafa* cannot be awarded in the criminal case. This is because the civil liability arising from the contract is not civil liability *ex delicto*, which arises from the same act or omission constituting the crime. Civil liability *ex delicto* is the liability sought to be recovered in a civil action deemed instituted with the criminal case.

The situation envisioned in the foregoing cases, as in this case, is civil liability *ex contractu* where the civil liability arises from an entirely different

But the amount of the hire cannot be recovered by way of civil damages in these proceedings. The amount due under the rental contract may properly be recovered in a separate civil action; but it cannot be held to be included in the civil damages (*perjuicios*) arising out of the crime of *estafa* of which the accused is convicted in this criminal action. (Art. 119, Penal Code.)

X X X

X X X **The indebtedness under the rental contract was and is a thing wholly apart from and independent of the crime of *estafa* committed by the accused.** No direct causal relation can be traced between them, and in the absence of such a relation, a judgment for the amount of the indebtedness, with subsidiary imprisonment in case of insolvency and failure to pay the amount of the judgment, cannot properly be included in a judgment in the criminal action for the civil damages (*perjuicios*) arising from or consequent upon the commission of the crime of which the accused is convicted. (Emphasis supplied.)

⁴⁵ G.R. No. 158495, October 21, 2004, 441 SCRA 137.

⁴⁶ *Id.* at 147.

⁴⁷ *Id.* at 149, with modification on the amount of the civil liability.

⁴⁸ G.R. Nos. 146641-43, November 18, 2002, 392 SCRA 140.

⁴⁹ *Id.* at 151.



source of obligation. Therefore, it is not the type of civil action deemed instituted in the criminal case, and consequently must be filed separately. This is necessarily so because whenever the court makes a finding that the elements of *estafa* do not exist, it effectively says that there is no crime. There is no act or omission that constitutes criminal fraud. Civil liability *ex delicto* cannot be awarded as it cannot be sourced from something that does not exist.

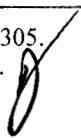
When the court finds that the source of obligation is in fact, a contract, as in a contract of loan, it takes a position completely inconsistent with the presence of *estafa*. In *estafa*, a person parts with his money because of abuse of confidence or deceit. In a contract, a person willingly binds himself or herself to give something or to render some service.⁵⁰ In *estafa*, the accused's failure to account for the property received amounts to criminal fraud. In a contract, a party's failure to comply with his obligation is only a contractual breach. Thus, any finding that the source of obligation is a contract negates *estafa*. The finding, in turn, means that there is no civil liability *ex delicto*. Thus, the rulings in the foregoing cases are consistent with the concept of fused civil and criminal actions, and the different sources of obligations under our laws.

We apply this doctrine to the facts of this case. Petitioner was acquitted by the RTC Manila because of the absence of the element of misappropriation or conversion. The RTC Manila, as affirmed by the CA, found that Mandy delivered the checks to petitioner pursuant to a loan agreement. Clearly, there is no crime of *estafa*. There is no proof of the presence of any act or omission constituting criminal fraud. Thus, civil liability *ex delicto* cannot be awarded because there is no act or omission punished by law which can serve as the source of obligation. Any civil liability arising from the loan takes the nature of a civil liability *ex contractu*. It does not pertain to the civil action deemed instituted with the criminal case.

In *Manantan*, this Court explained the effects of this result on the civil liability deemed instituted with the criminal case. At the risk of repetition, *Manantan* held that when there is no delict, "civil liability *ex delicto* is out of the question, and the civil action, if any, which may be instituted must be based on grounds other than the *delict* complained of."⁵¹ In Dy's case, the civil liability arises out of contract—a different source of obligation apart from an act or omission punished by law—and must be claimed in a separate civil action.

⁵⁰ CIVIL CODE, Art. 1305.

⁵¹ *Supra* note 31 at 397.



Violation of Due Process

We further note that the evidence on record never fully established the terms of this loan contract. As the trial before the RTC Manila was focused on proving *estafa*, the loan contract was, as a consequence, only tangentially considered. This provides another compelling reason why the civil liability arising from the loan should be instituted in a separate civil case. A civil action for collection of sum of money filed before the proper court will provide for a better venue where the terms of the loan and other relevant details may be received. While this may postpone a warranted recovery of the civil liability, this Court deems it more important to uphold the principles underlying the inherent differences in the various sources of obligations under our law, and the rule that fused actions only refer to criminal and civil actions involving the same act or omission. These legal tenets play a central role in this legal system. A confusion of these principles will ultimately jeopardize the interests of the parties involved. Actions focused on proving *estafa* is not the proper vehicle to thresh out civil liability arising from a contract.⁵² The Due Process Clause of the Constitution dictates that a civil liability arising from a contract must be litigated in a separate civil action.

Section 1 of the Bill of Rights states that no person shall be deprived of property without due process of law. This provision protects a person's right to both substantive and procedural due process. Substantive due process looks into the validity of a law and protects against arbitrariness.⁵³ Procedural due process, on the other hand, guarantees procedural fairness.⁵⁴ It requires an ascertainment of "what process is due, when it is due, and the degree of what is due."⁵⁵ This aspect of due process is at the heart of this case.

In general terms, procedural due process means the right to notice and hearing.⁵⁶ More specifically, our Rules of Court provides for a set of procedures through which a person may be notified of the claims against him or her as well as methods through which he or she may be given the adequate opportunity to be heard.

The Rules of Court requires that any person invoking the power of the judiciary to protect or enforce a right or prevent or redress a wrong⁵⁷ must file an initiatory pleading which embodies a cause of action,⁵⁸ which is defined as the act or omission by which a party violates a right of another.⁵⁹ The contents of an initiatory pleading alleging a cause of action will vary depending on the source of the obligation involved. In the case of an obligation arising from a contract, as in this case, the cause of action in an

⁵² See the dissenting opinion of Justice Johns in *Wise & Co. v. Larion*, 45 Phil. 314 (1923).

⁵³ *Gamboa v. Teves*, G.R. No. 176579, June 28, 2011, 652 SCRA 690.

⁵⁴ *Id.*

⁵⁵ *Secretary of Justice v. Lantion*, G.R. No. 139465, October 17, 2000, 343 SCRA 377, 392.

⁵⁶ *Secretary of Justice v. Lantion*, G.R. No. 139465, January 18, 2000, 322 SCRA 160.

⁵⁷ RULES OF COURT, Rule 1, Sec. 3, par. (a).

⁵⁸ RULES OF COURT, Rule 1, Sec. 5; Rule 2, Sec. 1.

⁵⁹ RULES OF COURT, Rule 2, Sec. 1.

initiatory pleading will involve the duties of the parties to the contract, and what particular obligation was breached. On the other hand, when the obligation arises from an act or omission constituting a crime, the cause of action must necessarily be different. In such a case, the initiatory pleading will assert as a cause of action the act or omission of respondent, and the specific criminal statute he or she violated. Where the initiatory pleading fails to state a cause of action, the respondent may file a motion to dismiss even before trial.⁶⁰ These rules embody the fundamental right to notice under the Due Process Clause of the Constitution.

In a situation where a court (in a fused action for the enforcement of criminal and civil liability) may validly order an accused-respondent to pay an obligation arising from a contract, a person's right to be notified of the complaint, and the right to have the complaint dismissed if there is no cause of action, are completely defeated. In this event, the accused-respondent is completely unaware of the nature of the liability claimed against him or her at the onset of the case. The accused-respondent will not have read any complaint stating the cause of action of an obligation arising from a contract. All throughout the trial, the accused-respondent is made to believe that should there be any civil liability awarded against him or her, this liability is rooted from the act or omission constituting the crime. The accused-respondent is also deprived of the remedy of having the complaint dismissed through a motion to dismiss before trial. In a fused action, the accused-respondent could not have availed of this remedy because he or she was not even given an opportunity to ascertain what cause of action to look for in the initiatory pleading. In such a case, the accused-respondent is blindsided. He or she could not even have prepared the appropriate defenses and evidence to protect his or her interest. This is not the concept of fair play embodied in the Due Process Clause. It is a clear violation of a person's right to due process.

The Rules of Court also allows a party to a civil action certain remedies that enable him or her to effectively present his or her case. A party may file a cross-claim, a counterclaim or a third-party complaint.⁶¹ The Rules of Court prohibits these remedies in a fused civil and criminal case.⁶² The Rules of Court requires that any cross-claim, counterclaim or third-party complaint must be instituted in a separate civil action.⁶³ In a legal regime where a court may order an accused in a fused action to pay civil liability arising from a contract, the accused-respondent is completely deprived of the remedy to file a cross-claim, a counterclaim or a third-party complaint. This—coupled with an accused-respondent's inability to adequately prepare his or her defense because of lack of adequate notice of the claims against him or her—prevents the accused-respondent from having any right to a meaningful hearing. The right to be heard under the Due Process Clause

⁶⁰ RULES OF COURT, Rule 16, Sec. 1, par. (g).

⁶¹ RULES OF COURT, Rule 6, Secs. 8, 9 & 11.

⁶² RULES OF COURT, Rule 111, Sec. 1, par. (a).

⁶³ *Id.*



requires not just any kind of an opportunity to be heard. It mandates that a party to a case must have the chance to be heard in a real and meaningful sense. It does not require a perfunctory hearing, but a court proceeding where the party may adequately avail of the procedural remedies granted to him or her. A court decision resulting from this falls short of the mandate of the Due Process Clause.

Indeed, the language of the Constitution is clear. No person shall be deprived of property without due process of law. Due Process, in its procedural sense, requires, in essence, the right to notice and hearing. These rights are further fleshed out in the Rules of Court. The Rules of Court enforces procedural due process because, to repeat the words of this Court in *Secretary of Justice v. Lantion*, it provides for “what process is due, when it is due, and the degree of what is due.”⁶⁴ A court ordering an accused in a fused action to pay his or her contractual liability deprives him or her of his or her property without the right to notice and hearing as expressed in the procedures and remedies under the Rules of Court. Thus, any court ruling directing an accused in a fused action to pay civil liability arising from a contract is one that completely disregards the Due Process Clause. This ruling must be reversed and the Constitution upheld.

Conclusion

The lower courts erred when they ordered petitioner to pay her civil obligation arising from a contract of loan in the same criminal case where she was acquitted on the ground that there was no crime. Any contractual obligation she may have must be litigated in a separate civil action involving the contract of loan. We clarify that in cases where the accused is acquitted on the ground that there is no crime, the civil action deemed instituted with the criminal case cannot prosper precisely because there is no delict from which any civil obligation may be sourced. The peculiarity of this case is the finding that petitioner, in fact, has an obligation arising from a contract. This civil action arising from the contract is not necessarily extinguished. It can be instituted in the proper court through the proper civil action.

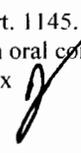
We note that while there is no written contract of loan in this case, there is an oral contract of loan which must be brought within six years.⁶⁵ Under the facts of the case, it appears that any breach in the obligation to pay the loan may have happened between 1996 and 1999, or more than six years since this case has been instituted. This notwithstanding, we find that the civil action arising from the contract of loan has not yet prescribed. Article 1150 of the Civil Code states —

⁶⁴ *Supra* note 55.

⁶⁵ CIVIL CODE, Art. 1145. The following actions must be commenced within six years:

1. Upon an oral contract;

x x x



Art. 1150. The time for prescription for all kinds of actions, when there is no special provision which ordains otherwise, shall be counted from the day they may be brought.

We held in numerous cases that it is the legal possibility of bringing the action that determines the starting point for the computation of the period of prescription.⁶⁷ We highlight the unique circumstances surrounding this case. As discussed in this decision, there has been diverse jurisprudence as to the propriety of ordering an accused to pay an obligation arising from a contract in the criminal case where the accused was acquitted on the ground that there is no crime. Litigants, such as MCCI, cannot be blamed for relying on prior rulings where the recovery on a contract of loan in a criminal case for *estafa* was allowed. We have found the opportunity to clarify this matter through this decision. As it is only now that we delineate the rules governing the fusion of criminal and civil actions pertaining to *estafa*, it is only upon the promulgation of this judgment that litigants have a clear understanding of the proper recourse in similar cases. We therefore rule that insofar as MCCI is concerned, the filing of an action, if any (that may be sourced from the contract of loan), becomes a legal possibility only upon the finality of this decision which definitively ruled upon the principles on fused actions.

We add, however, that upon finality of this decision, prospective litigants should become more circumspect in ascertaining their course of action in similar cases. Whenever a litigant erroneously pursues an *estafa* case, and the accused is subsequently acquitted because the obligation arose out of a contract, the prescriptive period will still be counted from the time the cause of action arose. In this eventuality, it is probable that the action has already prescribed by the time the criminal case shall have been completed. This possibility demands that prospective litigants do not haphazardly pursue the filing of an *estafa* case in order to force an obligor to pay his or her obligation with the threat of criminal conviction. It compels litigants to be honest and fair in their judgment as to the proper action to be filed. This ruling should deter litigants from turning to criminal courts as their collection agents, and should provide a disincentive to the practice of filing of criminal cases based on unfounded grounds in order to provide a litigant a bargaining chip in enforcing contracts.

WHEREFORE, in view of the foregoing, the Petition is **GRANTED**. The Decision of the CA dated February 25, 2009 is **REVERSED**. This is however, without prejudice to any civil action which may be filed to claim civil liability arising from the contract.

SO ORDERED.

⁶⁷ *Espanol v. Chairman, Philippine Veterans Administration*, G.R. No. L-44616, June 29, 1985, 137 SCRA 314; *Tolentino v. Court of Appeals*, G.R. No. L-41427, June 10, 1988, 162 SCRA 66; *Khe Hong Cheng v. Court of Appeals*, G.R. No. 144169, March 28, 2001, 355 SCRA 701.



FRANCIS H. JARDELEZA
Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

DIOSDADO M. PERALTA
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

BIENVENIDO L. REYES
Associate Justice

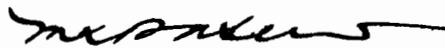
ATTESTATION

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.

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson, Third Division

CERTIFICATION

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

**MARIA LOURDES P. A. SERENO***Chief Justice***CERTIFIED TRUE COPY****WILFREDO V. LAPID****Division Clerk of Court****Third Division**

SEP 09 2016