

The Trust Fund Doctrine Under Philippine Corporate Setting

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The Article discusses the extent to which the Trust Fund Doctrine, an American doctrine, has been adopted in the Philippines with the enactment of the Corporation Law and later carried over into the current Corporation Code.

The Author begins with a short history of the trust fund theory as it evolved in the United States. This is followed with a presentation of key provisions in the Corporation Code which are connected with the Doctrine: the declaration of dividends, the classification of shares, retained earnings, consideration for stocks and liability for watered stocks, pre-incorporation subscription and release from subscription obligation, distinctions between subscription contracts and purchase agreements, a corporation's power to acquire its own shares, and finally, redeemable shares. Through this all, the Author notes that the American construction of the trust fund doctrine has been substantially engrafted, and at times strengthened, in the Philippine jurisdiction. Although there are instances wherein the doctrine has been relaxed as adopted, nevertheless the "need to preserve the capital stock of the corporation as a fund 'to which creditors may look upon for the satisfaction of their claim' has been preserved."