

SECURITY BANK CORPORATION, PETITIONER, VS. JUDGE MANUEL D. VICTORIO, REGIONAL TRIAL COURT, MAKATI CITY, BRANCH 141; THE TRADE AND INVESTMENT DEVELOPMENT CORPORATION OF THE PHILI...*G.R. NO. 155099. August 31, 2005*

Ponente: CALLEJO, SR., J.

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This is a petition for review on certiorari of the Decision[1] of the Court of Appeals (CA) in CA-G.R. SP No. 66879, dismissing the petition for prohibition and mandamus of the Security Bank and Trust Company, later renamed Security Bank Corporation (SBC), for the nullification of the Order of the Regional Trial Court (RTC) of Makati City, Branch 141, dated March 15, 2001, denying the bank's motion for the suspension of Civil Case No. 99-1581 on the ground of a prejudicial question relating to the issues raised in Civil Case No. 17563 pending in Branch 141 of the said RTC.

The Antecedents

On February 3, 1983, the MAR Fishing Company, Inc. (MFCI), obtained a US\$2-million loan from the PISO Development Bank (PISO Bank) to finance its importation of a fishing vessel to be used in its fishing activities under the PISO's re-lending credit line from the Asian Development Bank. Under the Loan Agreement executed by the MFCI, it was obliged to pay the loan in 10 years, from the date of PISO Bank's approval of the loan with a two-year grace period.[2]

On July 19, 1983, SBC and MFCI executed a Standby Credit Line Agreement, in which SBC extended an irrevocable Standby Credit Line in favor of the PISO Bank for the account of MFCI in an amount covering 50% of the PISO Bank loan or up to the principal amount of the peso equivalent of US\$1 million, plus the interests, fees and charges due on the loan. PISO Bank conformed to the agreement, under which MFCI was allowed to draw from the said fund the payment of its maturing obligations to PISO Bank. However, upon PISO Bank's declaration that the entire obligation of the MFCI is due and payable, the former could withdraw the entire amount of the account. The parties also agreed that SBC shall be subrogated to all the credits under the promissory note/s or any other instrument evidencing MFCI's obligation to PISO Bank, and to all the credits of the said bank appertaining thereto.[3] The parties further agreed that:

3. The BANK agrees that the LENDER may draw on the Line, in accordance with the provisions hereinbelow, any and all amounts due from the BORROWER to the LENDER under the terms of the Loan Agreement up to the extent of the SECURED AMOUNT. Provided, that the BANK shall not be obliged to release such drawings unless the LENDER shall have delivered in favor of the BANK a promissory note(s) in the form hereto attached as Annex "A" covering the amount of said drawing(s) executed by the LENDER for and on behalf of the BORROWER in accordance with the Power of Attorney executed by the BORROWER in favor of the LENDER dated July 14, 1983. The said promissory note(s) shall be apart and distinct from the Note(s) executed by the BORROWER in favor of the LENDER as evidence of the Loan.

...

7. The BANK hereby undertakes that drawing(s) under the Line in compliance with the terms hereof will be honored immediately upon delivery by the LENDER of (1) its duly signed statement and certification in duplicate that the amount drawn represents payment due from and unpaid by the BORROWER under the terms of the Loan Agreement and the Notes; and (2) the appropriate Note(s) or any other instrument evidencing the obligations of the BORROWER to the LENDER. Such required documents shall be presented at the principal office of the BANK within five (5) banking days after due date of the obligations subject to the Loan Agreement and the pertinent Note(s) without prejudice to whatever grace period the LENDER may give to the BORROWER.

...

11. It is understood, however, that an availment of the LENDER of the Line shall be subject to the conditions of paragraphs 3 & 7 hereof. Further, the BORROWER binds itself to pay interest on the amount availed of from the BANK on the prevailing money market rate of interest at the time of availment corresponding to the term and maturity of such availment as may be imposed by the BANK upon the BORROWER, and agrees to reimburse the BANK on demand for all reasonable expenses incurred by the BANK in connection with the operation and enforcement of this Agreement.[4]

To secure the payment of its drawdowns under the Standby Credit Facility, MFCI executed on August 8, 1983 a "First Preferred Mortgage on Vessel" in favor of SBC over its vessel "Southward Ho" (formerly "Sand Piper"), as described in the Certificate of Ownership issued by the Philippine Coast Guard.[5] Under the said deed, in the event that an action would be filed in court for the enforcement of any right under the contract, the SBC would be entitled, as of right, to the appointment of a receiver of the vessel, and to any revenue, earnings, rent income and other income.[6]

MFCI failed to pay its loan account to the PISO Bank. On August 11, 1987, the PISO Bank filed a Complaint against SBC with the RTC of Makati City, docketed as Civil Case No. 175634. The case was raffled to Branch 147 of the court. PISO Bank alleged, inter alia, the following:

1.8. Pursuant to the Standby Credit Line, PISO BANK, on 25 June 1987 sent a demand letter dated 24 June 1987 to SECURITY BANK. In said letter, PISO BANK informed SECURITY BANK that MAR FISHING defaulted in the payment of the amortizations due on the Loan in the total amount of TWENTY-TWO MILLION THREE HUNDRED EIGHTY THOUSAND EIGHT HUNDRED SIXTY-TWO AND 36/100 (P22,380,862.36), including interests, fees, and other charges, as of 15 May 1987. Consequently, in said letter PISO BANK demanded that SECURITY BANK pay PISO BANK fifty percent (50%) of the said amount, or ELEVEN MILLION ONE HUNDRED NINETY THOUSAND FOUR HUNDRED THIRTY-ONE AND 18/100 PESOS (P11,190,431.18), representing SECURITY BANK's obligation under the Standby Credit Line. Attached to said letter were all the documents required to call the line under the terms of the Standby Credit Line. However, SECURITY BANK, despite its obligation under the Standby Credit Line to pay PISO BANK "immediately" upon call, refused to honor its obligation under the Standby Credit Line.[7]

PISO Bank prayed that, after due hearing, judgment be rendered in its favor, as follows:

- (a) Ordering SECURITY BANK to pay the amount of at least ELEVEN MILLION ONE HUNDRED NINETY THOUSAND FOUR HUNDRED THIRTY-ONE AND 18/100 PESOS (P11,190,431.18) plus the amortizations, fees, stipulated interest, penalties and charges that may accrue after 15 May 1987;
- (b) Ordering SECURITY BANK to pay exemplary damages in such amount as may be deemed reasonable by the Honorable Court; and
- (c) Ordering SECURITY BANK to pay PISO BANK attorney's fees equivalent to twenty-five percent (25%)

of the total amount due plus litigation expenses and costs of suit.

PISO BANK likewise prays for such other relief, just and equitable under the premises.[8]

In its Answer, SBC denied any liability to PISO Bank, and alleged, by way of special and affirmative defenses, that the latter failed to comply with paragraphs 3 and 7 of the Standby Credit Line Agreement; even after it became aware that MFCI was undergoing financial distress as far back as 1985, it breached the mandatory conditions under the said agreement, thus, placing the defendant in jeopardy of not being reimbursed for the MFCI's drawdowns. As a consequence, PISO Bank should be deemed and declared to have waived its right under the said agreement. SBC further alleged that the plaintiff and MFCI entered into a secret agreement, whereby the stipulated 14.5% interest per annum on its promissory note was increased to 23% per annum, and that the plaintiff received or collected interests on the promissory note at such rate.

As an alternative defense, the defendant alleged that since the Standby Credit Line Agreement was based on the peso equivalent of the US dollar, it should only be liable, if at all, for no more than P6,496,066.66.

SBC incorporated in its Answer, a Third-Party Complaint against MFCI, in which it prayed that it be appointed as receiver over the Southward Ho and over its profit, income and other receivables from the operations thereof. It also alleged that in the remote event that the trial court should hold the it liable to PISO Bank, then, as third-party plaintiff, it would be entitled to "subrogation, and/or indemnification and/or reimbursement against the third-party defendant for the latter's failure to pay its obligation under the Loan Agreement, to the amount adjudged against the third-party plaintiff plus attorney's fees, litigation expenses and costs with indemnification which may be paid partially by the foreclosure of the property mortgaged." [9]

SBC prayed that judgment be rendered in its favor and against the plaintiff and the third-party defendant, as follows:

WHEREFORE, it is respectfully prayed that:

- The Complaint be dismissed for being totally unmeritorious;
- After hearing on the counterclaim, to render judgment ordering plaintiff to pay defendant:
 - (a) P1,000,000 as damages to its goodwill and prestige;
 - (b) Exemplary damages in an amount left to the sound discretion of this Honorable Court;
 - (c) P40,000 as attorney's fees;
 - (d) Expenses of litigation as shall be proven at the trial; and
 - (e) The costs of this suit;
- In the event that judgment be rendered ordering the defendant third-party plaintiff to pay plaintiff any amount claimed in the latter's complaint, to render judgment simultaneously ordering the third-party defendant to pay third-party plaintiff whatever amount is adjudged to be paid by the third-party plaintiff to the plaintiff, plus attorney's fees, litigation expenses and costs;
- In default of such payment by the third-party defendant, that the above-described mortgaged property be sold and the proceeds of the sale be applied to the partial payment of the amounts due to the third-party plaintiff from the third-party defendant;
- During the pendency of this case, that the third-party plaintiff be appointed as the receiver of the mortgaged property as well as to the earnings, rents, issues, profits and other income thereof with such other powers as this Honorable Court may confer;
- For execution for the deficiency which will remain unpaid after applying the proceeds of said sale.

Defendant Third-Party Plaintiff prays for such other and further relief, general and special, as it may appear entitled to, in law and in equity.[10]

In its Answer to the third-party complaint, MFCI alleged, inter alia, that (a) the mortgage contract executed by it and the third-party plaintiff was not the proper subject of the third-party complaint as it was not in respect of SBC's complaint, nor did it arise from the same transaction subject of the original complaint; and (b) assuming that SBC as third-party plaintiff was entitled to subrogation and/or reimbursement, its liability to was limited to those amounts or expenses secured by it under the Loan Agreement and Standby Credit Line Agreement; (c) the third-party complaint was premature as there had been as yet no judgment against it based on the Loan Agreement.[11] MFCI prayed that judgment be rendered in its favor, thus:

WHEREFORE, it is respectfully prayed:

- The Third-Party Complaint be dismissed for lack of merit;
- After hearing on the counterclaim, judgment be rendered against Third-Party Plaintiff to pay Third-Party Defendant the sum of P50,000.00, as and by way of attorney's fees, as well as cost of suit.[12]

In a separate transaction, the MFCI obtained loans from Export Credit Corporation of Canada (EDC) in August, 1981, guaranteed by the Philippine Export and Foreign Loan Guarantee Corporation (PHILGUARANTEE), covered by LG No. 81-383F and 385F. PHILGUARANTEE later became the Trade and Investment Development Corporation of the Philippines (TIDCORPP). Because of financial difficulties, the MFCI failed to pay its loan accounts to PHILGUARANTEE and proposed a restructuring of the loan; PHILGUARANTEE agreed, provided that MFCI execute an Indemnity Agreement in its favor to secure it from damages and/or liabilities that may arise. MFCI complied and executed said Indemnity Agreement on November 10, 1987.[13]

On July 29, 1988, the MFCI and the SBC executed a Sinking Fund Agreement with the following terms:

- The Borrower undertakes to course export receipts of at least US\$8.3 million thru the Lender and hereby irrevocably authorizes the Lender to set aside five percent (5%) of the peso proceeds from the Borrower's export receipts.
- A minimum amount of P5,000,000.00 shall be accumulated from the 5% export deduction within one and one-fourth (1¼) years from the drawdown date of the US\$1.0 million Term Loan. The export deductions shall be for a minimum amount/year counting from the date of release of the Term Loan as follows:

Before Nov. 30, 1988 - - - P2,500,000.00

Before Feb. 28, 1989 - - - P2,500,000.00

By Feb. 2, 1989 - - - - - P5,000,000.00
- The deduction shall be increased to 10% during peak season for fishing.
- The Sinking Fund shall earn interest at the same rate being paid by the Lender on savings deposit.
- The balance of the Sinking Fund on or at the end of 1-1/4 years from date of release of the Term Loan should be at least sufficient to cover the Minimum Balance.
- In the event the export receipts are not coursed to the Lender, or the export deduction is not sufficient to cover the Minimum Balance, the Borrower shall deposit in cash the deficiency upon five (5) business days of such deficiency from the Lender.
- Any balance in the Sinking Fund cannot be withdrawn while the Term Loan facility remains unpaid notwithstanding usage or non-usage of the Import Line by the Borrower.[14]

The parties agreed that any balance in the Sinking Fund could not be withdrawn while the terms from the loan facility remained unpaid, and whether MFCI used its Import Line.[15]

On October 31, 1991, MFCI executed an Addendum to the Sinking Fund Agreement in which it agreed that the Sinking Fund would secure all the loans granted to it (including the P4.5 million Export Packing Loan from TIDCORPP), thus:

- Notwithstanding anything in this Agreement to the contrary, the Sinking Fund Agreement shall now and hereinafter secure all the Loans granted to Mar Fishing Company, Inc., including the Export Packing Loan of P4,500,000.00
- All the terms and conditions not inconsistent herewith shall continue to be in full force and effect.[16]

When it failed to pay its loan account with PHILGUARANTEE, MFCI, as assignor, and the PHILGUARANTEE (TIDCORP), as the assignee, executed on August 20, 1998, a Deed of Assignment in which the former offered to pay to TIDCORP its outstanding account by assigning all its rights and interests over the Sinking Fund in SBC's custody in the amount of P5 million. It was specifically agreed therein that:

- The ASSIGNOR hereby assigns, transfers and conveys by way of payment to the ASSIGNEE the entire amount covered by the FUND including all deposits and interests that may have accrued thereto which in no case shall be less than Five Million Pesos (P5,000,000.00). For this purpose, the ASSIGNOR hereby delivers to the ASSIGNEE all documents evidencing the ASSIGNOR's rights and interest in the Fund hereby assigned.
- The ASSIGNOR undertakes to notify SBTC of this Deed of Assignment not later than five (5) days from date hereof. The ASSIGNOR shall provide the ASSIGNEE a certified true copy of such notice not later than five (5) days from date of service of such notice.
- In order to give real meaning and substance to this Assignment, the ASSIGNOR shall -
 - 3.01 Provide and deliver to the ASSIGNEE all pertinent documents, papers and things related to or in connection with the FUND herein assigned;
 - 3.02 Provide and make available to the ASSIGNEE all witnesses having personal knowledge of the FUND, should the matter subject hereof requires judicial action; and,
 - 3.03 Perform any and all acts and deeds necessary to effectuate the assignment herein made in accordance with the real intention of the parties.

- This DEED OF ASSIGNMENT shall produce the effect of payment only upon actual receipt by the ASSIGNOR of the entire proceeds of the FUND in which event the obligations of the ASSIGNOR to the ASSIGNEE shall be reduced only to the extent of the amount actually received by the ASSIGNEE which in no case exceeds the amount of the FUND. It shall remain in full force and effect until full and complete payment and performance by the ASSIGNOR of all its obligations to the ASSIGNEE.[17]

On October 8, 1998, SBC issued a Certification stating that MFCI had no more outstanding account loan with it.[18]

On November 20, 1998, TIDCORP, through counsel, wrote SBC[19] requesting that the amount of the Sinking Fund in its custody be remitted to it, conformably with the Deed of Assignment executed by MFCI, and in light of its Certification dated October 8, 1998.[20]

On September 1, 1999, TIDCORP filed a complaint for sum of money against the SBC, docketed as Civil Case No. 99-1581 and raffled to Branch 141 of the court. TIDCORP alleged, inter alia, that on or about August, 1981 MFCI obtained loans from Export Credit Corporation of Canada (EDC) in the amount of US\$6,333,564.00 which

was covered by its irrevocable and unconditional guarantee; MFCI defaulted in the payments of its said loan, and the plaintiff was compelled to pay and/or settle the obligations of MFCI to EDC; on November 10, 1987, the plaintiff and MFCI executed a Restructuring Agreement covering the latter's obligations, but still failed to pay P855,766,785.00 as of September 11, 1998; on August 20, 1998 MFCI assigned the amount of P5 Million to TIDCORP, including all deposits and interests that may have accrued thereto from MFCI's Sinking Fund under the custody of SBC; by virtue of the Deed of Assignment executed by MFCI to the plaintiff (TIDCORP), the latter demanded from SBC the delivery and/or payment of the said amount, including all deposits and interests that may have accrued thereto, but SBC refused to do so.

TIDCORP prayed that, after due proceedings, judgment be rendered in its favor, thus:

WHEREFORE, premises considered, Plaintiff most respectfully prays of this Honorable Court to render judgment in favor of Plaintiff ordering Defendant to pay Plaintiff the sum of:

- Five Million Pesos (P5,000,000.00) including all deposits and interests that may have accrued thereto, plus interest thereon at the legal rate until the entire sum is fully paid; and
- The sum of Five Hundred Thousand Pesos (P500,000.00) for and as attorney's fees and expenses of litigation.

Plaintiff further prays for such other reliefs and remedies just and equitable under the premises.[21]

SBC as defendant filed an Answer to the complaint, alleging as special and affirmative defense, that the phrase "all the loans granted to Mar Fishing Company" secured by the Sinking Fund Agreement included its potential liability to PISO Bank under the Standby Letter of Credit Line it had issued to secure MFCI's loan, which still had to be adjudicated in Civil Case No. 17563. It likewise incorporated a Third-Party Complaint against the MFCI, and alleged that such third-party defendant executed an Addendum to the Sinking Fund Agreement as far back as October 31, 1991, securing all the loans granted to MFCI, including the P4.5 million Export Packing Loan; nevertheless, MFCI fraudulently executed a Deed of Assignment on August 20, 1998 to TIDCORP despite its knowledge that such Sinking Fund secured any and all credit facilities it had obtained from the defendant including the potential liabilities of the defendant to the PISO Bank which is the plaintiff in Civil Case No. 17563 pending in the RTC of Makati City, Branch 147; the execution of the deed of assignment by the third-party defendant in favor of the plaintiff served as an erroneous basis of the complaint filed by the plaintiff against the defendant (Third-Party Plaintiff); in the event that the court shall declare that it was liable, then, it would be entitled to subrogation and/or indemnification and reimbursement against the third-party defendant to the amount adjudged against the third-party plaintiff including attorney's fees, litigation expenses, and costs with indemnification from the Sinking Fund; and, in the alternative, that the third-party defendant alone should be held liable directly to the plaintiff.[22]

In its answer to the third-party complaint, the third-party-defendant MFCI averred that the October 31, 1991 Addendum to the Sinking Fund Agreement do not cover potential liabilities of third-party defendant.[23]

On February 1, 2001, the defendant third-party-plaintiff, filed a motion in Civil Case No. 99-1581, praying that all proceedings should be suspended on the ground of a prejudicial question still to be resolved in Civil Case No. 17563. At that time, the plaintiff's second witness in Civil Case No. 17563 was to be cross-examined. The defendant averred in its motion that the issue before the court was which of the parties had a better right to the Sinking Fund, and insisted that it had a lien over the fund.

SBC argued that, if the judgment of the RTC in Civil Case No. 17563 would be unfavorable to it, it would be held liable to plaintiff PISO Bank, then third-party defendant MFCI would be liable to defendant SBC, in which case the obligations of the third-party defendant MFCI would be outstanding, and entitling SBC to enforce its lien over

the Sinking Fund. It averred that it had a better right to the fund because its lien antedated the assignment of the fund. If, on the other hand, the judgment of the RTC in Civil Case No. 17563 would be in its favor in that it would not be held liable to the plaintiff therein, then, the third-party defendant will not be liable to the defendant in which case, it would lose its lien over the Sinking Fund.

SBC further averred that the transactions and issues in Civil Case No. 17563 and in the case before the court were interrelated, and that the proceedings should be suspended to await the outcome of Civil Case No. 99-1581. The defendant cited the rulings of the Court in *Quiambao v. Osorio*,^[24] *Vidad v. RTC of Negros Oriental*, Branch 42^[25] and *City of Pasig v. Commission on Elections*,^[26] that prejudicial questions may be appreciated even if no criminal case is involved.

TIDCORP opposed this motion, contending that (a) the issue of whether SBC's liability to PISO Bank was anchored on the Sinking Fund Agreement as to preclude the assignment thereof to the plaintiff still had to be resolved by the court; (b) the parties had agreed that the issue for resolution was who between the parties had a better right to the Sinking Fund, and under Section 7, Rule 18 of the Rules of Court, SBC was precluded from filing a motion for the suspension of the proceedings; and (c) the contracts and transactions subject of Civil Case No. 17563 were different from those before the trial court. Moreover, SBC did not have a lien over the Sinking Fund, and its reliance on the Court's rulings in *Quiambao* and *City of Pasig* was misplaced.

On March 15, 2001, the trial court issued an Order denying SBC's motion, ruling that during the pre-trial, the parties had agreed that the main issue for resolution was which party had a better right to the Sinking Fund, and that this issue was not raised before the RTC in Civil Case No. 17563.

In its Order of August 3, 2001, the trial court denied SBC's motion for a reconsideration of its March 15, 2001 Order.

Thus, SBC filed a petition for certiorari and prohibition with the CA, averring that:

RESPONDENTS COMMITTED GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION BY DISREGARDING SETTLED JURISPRUDENCE IN DENYING THE SUSPENSION OF FURTHER HEARINGS IN THE TIDCORP CASE UNTIL AFTER A FINAL JUDGMENT SHALL HAVE BEEN PROMULGATED IN THE PISO CASE^[27]

On April 29, 2002, the CA rendered judgment dismissing the petition. The CA held that the issues in Civil Case No. 17563 were not related to the issues before the court a quo. The claim of the PISO Bank, in Civil Case No. 17563, was based on transactions different from those in the instant case. Moreover, the resolution of the issues before the RTC in Civil Case No. 17563 was not prejudicial to the resolution of the issues before the court a quo.

The petitioner's motion for reconsideration was likewise denied by the appellate court in the Resolution dated September 4, 2002.

The petitioner argues that contrary to the ruling of the CA, the proceedings before the trial courts may be suspended on the ground of a prejudicial question pending the termination of another criminal case. It argues that it is enough that the issues are logically interrelated or interlinked, even if they are not identical; otherwise, there can never even be a prejudicial question. For, if the issues were identical, then the second case would be dismissed. It asserts that it was impossible for it to have alleged in its Answer and Third-Party Complaint in Civil Case No. 17563 that it had a better right to the Sinking Fund, for the simple reason that it was only on October 8, 1987 that it filed its Answer to the complaint in Civil Case No. 17563, long before the Addendum to the Sinking Fund Agreement was executed on October 31, 1991.

In its Comment on the petition, the respondent avers that there was no factual and legal basis for the petitioner's

claim that it had a lien over the Sinking Fund. This issue was precisely raised in the court a quo as agreed upon by the parties, during the pre-trial, which has yet to be resolved by the RTC. Besides, the respondent asserts, the circumstances obtaining in the two cases are not analogous to a situation where the elements of prejudicial questions are present. It filed the case for the purpose of enforcing its right to the Sinking Fund held by petitioner, pursuant to an assignment by the fund's owner, respondent MFCI. On the other hand, the PISO case involves the enforcement of the right to the Standby Letter of Credit Agreement which the petitioner executed in favor of PISO Bank, for the latter to lend its money to respondent MFCI. The fact that both petitioner and respondent TIDCORP lay claim to the Sinking Fund does not make the issues "logically interrelated or interlinked." Even if the petitioner's contention that it was a creditor of respondent MFCI had yet to be established, respondent TIDCORP has already been established as creditor of respondent MFCI, and not a "would-be creditor" as alleged by the petitioner.

The respondents maintain that the rulings of this Court in Quiambao, Vidad, and City of Pasig do not apply in the case at bar: in Quiambao,[28] the Court affirmed the holding in abeyance of the proceedings in the ejectment case pending the determination of the issue of possession in the administrative case, considering the identity of parties and issues. In this case, the parties are not identical, and the issues in the cases before the RTC are not related to each other (having arisen from different transactions as to warrant the suspension of the case a quo on the ground of prejudicial question). Vidad is not applicable because it involves the doctrine of primary jurisdiction which is not present herein.

The petition has no merit.

For clarity, the Court will refer to Civil Case No. 17563 pending in Branch 141 of the RTC as the FIRST CASE. The plaintiff therein is the PISO Bank, while the defendant and third-party plaintiff therein is the petitioner. The MFCI is the third-party defendant. The Court will refer to Civil Case No. 99-1581 as the SECOND CASE, the plaintiff therein being the respondent TIDCORP, and the defendant is petitioner SBC. The MFCI is also the third-party defendant therein.

The petitioner was burdened to prove that the CA committed grave abuse of its discretion amounting to excess or lack of jurisdiction in dismissing its petition for certiorari, and that the RTC did, likewise, in denying the motion to suspend the proceedings before it. By grave abuse of discretion is meant such capricious and whimsical exercise of judgment, or is equated to lack of jurisdiction. It must be shown that the discretion was exercised arbitrarily, or despotically, or whimsically. A writ of certiorari is not the remedy for errors of judgment committed by a court in the exercise of its jurisdiction.[29]

The ruling of the CA that petitioner SBC failed to make out a good case for the stay or suspension of the proceedings in the court a quo is correct. The petitioner failed to prove its claim that the court a quo committed a grave abuse of its discretion amounting to excess or lack of jurisdiction in denying its motion for the suspension of the proceedings before it, on its claim that the issue of whether it would ultimately be held liable in the FIRST CASE for the claim of the plaintiff therein still had to be resolved by the trial court.

The petitioner harps on the need for the suspension of the proceedings in the SECOND CASE based on a prejudicial question still to be resolved in the FIRST CASE. But the doctrine of prejudicial question comes into play generally only in a situation under Section 5, Rule 111 of the Revised Rules of Criminal Procedure[30] where civil and criminal actions are pending and the issues involved in both cases are similar or so closely related that an issue must be preemptively resolved in the civil cases before the criminal action can proceed. There is no prejudicial question to speak of when the two cases are civil in nature.[31] However, a trial court may stay the proceedings before it in the exercise of its sound discretion:

The court in which an action is pending may, in the exercise of a sound discretion, upon proper application for a stay of that action, hold the action in abeyance to abide the outcome of another pending in another court, especially where the parties and the issues are the same, for there is power inherent in every court to control the disposition of causes (sic) on its dockets with economy of time and effort for itself, for counsel, and for litigants. Where the rights of parties to the second action cannot be properly determined until the questions raised in the first action are settled the second action should be stayed.[32]

The power to stay proceedings is incidental to the power inherent in every court to control the disposition of the cases on its dockets, considering its time and effort, that of counsel and the litigants. But if proceedings must be stayed, it must be done in order to avoid multiplicity of suits and prevent vexatious litigations, conflicting judgments, confusion between litigants and courts. It bears stressing that whether or not the RTC would suspend the proceedings in the SECOND CASE is submitted to its sound discretion.

Indeed, a judicial order issued pursuant to the court's discretionary authority is not subject to reversal on review unless it constitutes an abuse of discretion. As the United States Supreme Court aptly declared in *Landis v. North American Co.*,[33] "the burden of making out the justice and wisdom from the departure from the beaten track lay heavily on the petitioner, less an unwilling litigant is compelled to wait upon the outcome of a controversy to which he is a stranger. It is, thus, stated that only in rare circumstances will a litigant in one case is compelled to stand aside, while a litigant in another, settling the rule of law that will define the rights of both is, after all, the parties before the court are entitled to a just, speedy and plain determination of their case undetermined by the pendency of the proceedings in another case. After all, procedure was created not to hinder and delay but to facilitate and promote the administration of justice."

The test to determine whether the suspension of the proceedings in the SECOND CASE is proper is whether the issues raised by the pleadings in the FIRST CASE are so related with the issues raised in the SECOND CASE involving the Sinking Fund,[34] such that the resolution of the issues in the FIRST CASE would determine the issues in the SECOND CASE.

We agree with the findings of the CA that petitioner SBC did not raise the issue of whether it had the right to the Sinking Fund in its Answer to the complaint in the FIRST CASE and in its third-party complaint against MFCI. But we also agree with the petitioner's contention that it could not have asserted its right over said fund because it was established only on July 29, 1988, when the petitioner and the MFCI executed the Sinking Fund Agreement when the petitioner filed its Answer to the complaint in the FIRST CASE much earlier, on October 3, 1987.

The Sinking Fund consisted of the export earnings of MFCI, deposited with petitioner SBC. The MFCI remained to be the owner of the fund, but could withdraw the same, regardless of whether it had drawdowns under its Loan Agreement with the PISO Bank, or whether the petitioner had paid any of its demandable obligations under the Loan Agreement, in relation to the irrevocable letter of credit. However, under the Addendum to the Sinking Fund Agreement, the fund became a security for the payment of MFCI's liability to PISO Bank. And under the Irrevocable Standby Letter of Credit executed by petitioner SBC in favor of the MFCI, SBC was subrogated to the credits in favor of the PISO Bank under its Loan Agreement to MFCI. However, such fund was also made to secure the payment of the P4.5 million loan granted by TIDCORP to the MFCI.

However, the PISO Bank failed to file a supplemental complaint[35] in the FIRST CASE to order the petitioner SBC, as defendant therein, to pay to it the amount of P5 million from the Sinking Fund. Neither did the petitioner, as the defendant and third-party plaintiff in the FIRST CASE, file a Supplemental Answer and Supplemental Third-Party Complaint, praying that, in the event that judgment is rendered against it on the complaint, and judgment is rendered in its favor on its Supplemental Third-Party Complaint (declaring that petitioner SBC is entitled to the corresponding amount from the Sinking Fund to the extent of its liability to the PISO Bank under

the decision of the court). Hence, the issue of whether or not the petitioner therein had a right to the Sinking Fund was not raised as an issue in the FIRST CASE; as such, the court had no jurisdiction over such issue. The court in the FIRST CASE cannot and will not resolve an issue which the parties did not raise in their pleadings. Whether or not the Court has jurisdiction over a specific issue is to be determined by an examination of the parties' pleadings.[36] It is conferred by the pleadings of the parties.[37] Hence, even if the trial court would render judgment in the FIRST CASE in favor of the plaintiff PISO Bank and order petitioner SBC, as defendant therein, to pay the plaintiff's claim; and order therein third-party defendant MCFI to pay the amount paid by SBC to the PISO Bank, the court cannot declare that petitioner SBC is entitled to the Sinking Fund or even a portion thereof.

In the FIRST CASE, it is possible that the court would render judgment in favor of PISO Bank, the plaintiff therein, and against the defendant of its principal claim of P11,190,431.18; and, on the third-party complaint of the petitioner SBC against the third-party defendant MCFI, order the foreclosure of the chattel mortgage and the sale thereof at public auction. However, the sheriff will not be able to enforce the judgment against the petitioner and collect the deposit in the Sinking Fund until after the RTC in the SECOND CASE shall have resolved, with finality, the issue of who as between respondent TIDCORP and the petitioner, as the subrogee to the rights of PISO Bank to the fund and the defendant therein had the better right to the said fund.

Whether or not the sheriff may garnish the Sinking Fund in the custody of the petitioner will depend upon the outcome of the SECOND CASE, where the issue of whether the petitioner is entitled to subrogation and had a better right to the fund or even a portion thereof was raised by agreement of the parties therein. The proceedings in the SECOND CASE should not be suspended, even in the event that the petitioner files a supplemental answer and a supplemental third-party complaint against MCFI in the FIRST CASE, after the decision of this Court in this case shall have been final and executory. Respondent TIDCORP should not be prejudiced by the petitioner's failure to file a supplemental answer and third-party complaint in the FIRST CASE before the execution of the Deed of Assignment by the MCFI in favor of TIDCORP, and the filing by the respondent of its complaint in the SECOND CASE.

The petitioner cannot rely on the rulings of the Court in Quiambao, Vidad and the City of Pasig, for the simple reason that the issue of the Sinking Fund was not raised in the FIRST CASE but as the sole issue raised not to be resolved in the SECOND CASE. In Quiambao, the Court held that the issue of the validity of the agreement to sell pending in the administrative case was prejudicial to the issue of whether or not the private respondents therein had the right to continue in possession of the property subject of the two cases; hence, there was a need to suspend the proceedings. In Vidad case, the resolution of the case before the Department of Education, Culture and Sports (DECS) was prejudicial to the resolution of the issue in the civil case for injunction and damages. Involved therein was the doctrine of primary jurisdiction of the DECS. In City of Pasig, the issue of territorial jurisdiction in the civil case was prejudicial to the resolution of the territorial jurisdiction of the proposed barangays.

IN LIGHT OF ALL THE FOREGOING, the petition is DENIED for lack of merit. Costs against the petitioner.

SO ORDERED.

Puno, (Chairman), Austria-Martinez, Tinga, and Chico-Nazario, JJ., concur.

[1] Penned by Associate Justice B.A. Adefuin de la Cruz with Associate Justices Juan Q. Enriquez, Jr. and Regalado E. Maambong, concurring; Rollo, pp. 175-183.

[2] CA Rollo, pp. 33-34.

[3] CA Rollo, p. 44.

[4] Id. at 42-45.

[5] CA Rollo, pp. 62-69.

[6] Id. at 66.

[7] Id. at 29.

[8] CA Rollo, p. 31.

[9] CA Rollo, pp. 57-59.

[10] CA Rollo, pp. 59-60.

[11] Id. at 70-73.

[12] Id. at 73.

[13] CA Rollo, p. 85.

[14] CA Rollo, pp. 96-97.

[15] Id. at 9.

[16] Id. at 110.

[17] CA Rollo, pp. 94-95.

[18] Id. at 98.

[19] Id.

[20] Id.

[21] CA Rollo, p. 81.

[22] CA Rollo, pp. 105-106.

[23] Id. at 112-114.

[24] No. L-48157, 16 March 1988, 158 SCRA 674.

[25] G.R. No. 98084, 18 October 1993, 227 SCRA 271.

[26] G.R. No. 125646, 10 September 1999, 314 SCRA 179.

[27] CA Rollo, p. 73.

[28] Supra.

[29] Purefoods Corporation v. NLRC, G.R. No. 78591, 21 March 1989, 171 SCRA 415.

[30] Sec. 5. Elements of prejudicial question. - The two (2) essential elements of a prejudicial question are: (a) the civil action involves an issue similar or intimately related to the issue raised in the criminal action; and (b) the resolution of such issue determines whether or not the criminal action may proceed.

[31] Quiambao v. Osorio, supra.

[32] Id. at 679.

[33] 299 U.S. 248, (1936).

[34] Sinking Fund is fund instituted and invested in such wise that its gradual accumulation will enable it to meet and wipe out a debt at maturity. (*Cincinnati v. Ferguson*, 12 Ohio Dec. 439 [1902]).

[35] SEC. 6. Supplemental pleadings.- Upon motion of a party the court may, upon reasonable notice and upon such terms as are just, permit him to serve a supplemental pleading setting forth transactions, occurrences or events which have happened since the date of the pleading sought to be supplemented. The adverse party may plead thereto within ten (10) days from notice of the order admitting the supplemental pleading.

[36] *Reyes v. Diaz*, 73 Phil. 484 (1942).

[37] *Bernabe v. Vergara*, 73 Phil. 676 (1942).

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