

Ringling the shark bell

THE TREASURER MAGAZINE ASKS LEE ROBINSON ABOUT HOW HE MANAGES COUNTERPARTY RISK.

Lee Robinson is co-author of the book *The Gathering Storm* and has been credited with anticipating the banking crisis long before it broke. He believes that the current period is the greatest danger for financial markets in 70 years.

He says that banking and finance comes down to one thing: credit. If banks cannot lend nor corporates borrow, the whole system shuts down. That was what happened in 2008, and indeed in every other financial crisis, with most corporate bankruptcies rooted in a funding issue.

Robinson says his success at calling the last financial crisis is down to scrutinising the credit markets for early warning signs. "No analyst is infallible. All we are saying is this is what the markets are saying, this is their cumulative wisdom of the risk at the moment," he adds.

In Robinson's view, the credit default swap

(CDS) market comprises a relatively small number of sophisticated investors, so what they think and do is worth knowing about. CDS prices give the market participants' view of an entity's solvency.

Robinson compares the risk system that he has developed to a shark bell: if it rings, then swimmers leave the water until the all-clear is given. If the CDS market tells you to move your money from particular bank and that advice turns out to be wrong, it is merely an inconvenience. But if it was right and you ignored it, then it could lead to a disaster. "It is all about being on top of the information. And if it's there, don't you want to have it?"

This knowledge, cross-market information, is more than just protection; it can also be used as a basis for negotiating terms with suppliers and customers.

But the key advice is to look at the credit rating system and seek independent advice from more than one source. Robinson believes that if treasurers take heed of these signs, then both money and jobs could be saved, as treasurers need good tools and information to help them steer a course away from danger. ■



For more on using cross-market information and to sign up for the service, go to www.altanaft.com
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