

Derivatives Could Cause Another Meltdown: Mobius

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Derivatives caused the market armageddon of recent years and if left unchecked by global leaders, the same market could cause another catastrophe, Mark Mobius, executive chairman of Templeton Asset Management, told CNBC Monday.

When asked by a CNBC viewer what kind of Armageddon could be expected if the derivatives problem is not addressed, Mobius replied: "The same kind of Armageddon that we just had, what we just saw in the last few years has been caused by derivatives."

The lack of liquidity, transparency, coupled with its sheer size means the derivatives market poses a major risk to financial stability, according to Mobius. The currency derivatives market is especially at risk of causing problems, but interest-rate derivatives also, he said.

Mobius thinks that global leaders meeting for the G20 summit in Pittsburgh next week should focus almost solely on the derivatives trade. Debates over how much bankers are paid in bonuses should be bumped down the agenda, he said.

The derivatives market is ten times the total GDP of the world, or \$600 trillion, Mobius pointed out. And the market has been responsible for numerous bankruptcies in recent years as companies don't know what they have on their books and don't read the fine print, he said.

"The scary thing for me as an investor is what a company has in their books. One of the first questions we ask a company is: 'What derivatives do you have?' Because so many companies have gotten into deep trouble because of that. Why? Because there's no transparency, there's no liquidity," Mobius said.

As central bankers around the world keep interest rates low, it is obvious that there will be another rise in various asset classes, Mobius said. Commodities and stocks will be the two main areas to draw money in, according to Mobius. "It's already happening," he added.

Mobius thinks that different banking activities should be kept separate in order to protect investors and consumers.

"You have banks that are doing everything under the sun, selling and buying derivatives, doing consumer banking, doing corporate banking," he said. "They're not banks anymore, they're gamblers."

Mobius also said that the G20 leaders should also focus on keeping protectionism at bay when they meet next week.

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