

As far as professional treasuries go, it must be hard to beat the set-up at energy giant Shell. With a staff of around 300, its responsibilities encompass treasury operations, pensions, risk and insurance, as well as M&A and commercial finance. So there's plenty of scope for career progression for its talented treasury team.

This explains why Ian Chisholm, the company's vice president financial markets, has stayed at the company ever since he joined Shell's finance graduate scheme after studying geology at Cambridge. "There are a wide range of opportunities in such a big company," he says, "and Shell's full of talented people. It's an important industry meeting the energy needs of society, and comes with a huge number of technical, environmental and financial challenges."

Further adding to the company's appeal, Shell is "a very strong supporter of the ACT", according to Chisholm, who has sat on the ACT's council since 2013. "We're also strong supporters of competence development. We've had our own competency framework for many years, so I'm delighted to see that the ACT has introduced theirs. For me, the ACT is the benchmark of treasury education."

Today, Chisholm heads up Shell's financial markets team, reporting in to group treasurer Russell O'Brien, and he is responsible for debt and equity capital markets, as well as credit rating agency relationships and treasury compliance – a role that he says has got even more interesting due to the proposed merger with rival energy company BG Group. During his career, he has worked in all of Shell's treasury functions except risk and insurance, and he has travelled extensively with the company – when he worked in M&A, he was responsible for gas and power projects in the Far East.

What he likes about treasury is the fact that treasurers get to make decisions – financing decisions or risk management decisions – and they get to see the results of those decisions

within a relatively short space of time. "In a lot of finance roles, you're supporting the decision-makers," he explains, "but in treasury, you really are the decision-maker."

#### Strategic partner

At Shell, treasury also plays an important role in helping to set group strategy. Chisholm prepares an annual financial strategy paper, which is presented in tandem with the business plan to the board in December each year, and O'Brien regularly presents to the board on treasury issues.

Financial strategy matters because of the scale of Shell's activities – it is the world's 13th-biggest company, according to Forbes, and it operates in more than 70 different countries around the world. And the nature of its business means that its projects are ambitious and capital-intensive. For example, it is investing billions of dollars in building the world's first floating liquefied natural gas facility, the 488m-long Prelude. Once it has been completed, Prelude will take gas from offshore Australia, then convert it into a liquid for transportation around the world.

The challenge with Prelude from the Shell treasury perspective is not just funding it, but also insuring it. "The question is, how do you insure the biggest vessel in the world?" Chisholm queries. "We have to take a lot of that exposure onto our own balance sheet. We do a lot of self-insurance because the insurance markets have limited capacity for such risks."

He continues: "We think we have a more informed view of our business and our loss history, which means we understand the risks better than the insurance market does. We have captive insurance companies that will provide insurance cover to our individual operating companies and which will respond if there's a claim. So we're retaining the risk within Shell."

# OILING THE WHEELS

What's it like working in the treasury of Europe's largest company by revenue? Ian Chisholm, Shell's vice president financial markets, explains

Words: Sally Percy / Photography: Will Amlot



## Rules and regulations

Shell's treasury regards itself as cutting-edge, but it's not just its insurance activities that set it apart from other treasuries. Another good example is its engagement in the regulatory debate. Besides managing FX and interest-rate risk, Shell also uses derivatives to manage the large exposures arising from the group's commodity trading business – which makes talking to regulators a necessity.

“We are directly affected by some regulation – all the efforts on derivatives, for example,” says Chisholm, “but we are indirectly affected by a lot of financial regulation because we are a major user of financial services.”

Asked whether Shell is able to make a difference through its engagement in the regulatory debate, Chisholm responds: “I think we do, but the regulators have a lot of different constituencies lobbying them. We want to make sure that regulators listen to both sides of the story because the financial services side is very busy lobbying, too.”

Sanctions are another concern for Shell. “We comply with all applicable sanctions,” Chisholm explains. “We monitor them extremely closely because we need to ensure that all of our processes are compliant. Our Russian operations are carrying on, but the new investments there are not getting financing. We don't have any operations in Iran, but we have been unable to pay \$2bn to the National Iranian Oil Company for crude that we lifted prior to sanctions. When sanctions are fully removed, we will pay that.”

Shell's treasury has needed to invest a significant amount of time and attention in its payment process to ensure that it is fully compliant with sanctions. “The banks are much more focused on this area than they have been in the past,” comments Chisholm, “and they will stop payments if any red flags come up. If one of our cash management banks says, ‘Here's a payment to so-and-so, and it's got the name of somebody who's on the sanctions list’, we have to check our due diligence processes to make sure that the payment is valid and the red flag is a false alarm – for instance, if it's someone else with the same name.”

## Oil price shock

As Europe's biggest producer of oil, Shell has inevitably felt the impact of the recent slump in oil prices. “Clearly, the oil price is a significant challenge for us,” notes Chisholm, “because it is the main driver of our revenues. For every annual \$10-per-barrel move in the oil prices, there's an annual impact on our cash flows of \$3bn.”

To a certain extent, however, the nature of Shell's business helps to shield it from the full impact of the fall in oil prices. Besides its upstream extraction business, it also has its downstream refining and marketing business, to which oil is an input. “The downstream business generally makes more money in a lower oil price environment,” Chisholm explains. “So it's a natural hedge.”

Meanwhile, the oil industry's costs fluctuate along with the oil price. “We saw a lot of cost inflation

## VITAL STATISTICS

**#1**

Shell is the largest oil producer in Europe

**13**

Shell's position on the Forbes 2015 list of the world's biggest public companies

**70+**

the number of countries in which Shell operates

**94,000**

the number of people employed by Shell

**18.1%**

the proportion of Shell's senior leaders who are women

**3.1 million**

the number of barrels of oil equivalent that are produced by Shell every day

**\$3.7 trillion**

the amount of cash flow that passes through Shell's bank accounts on an annual basis

**\$421.1bn**

Shell's turnover in 2014

**\$23.9bn**

the net capital investment made by Shell in 2014

**\$27bn**

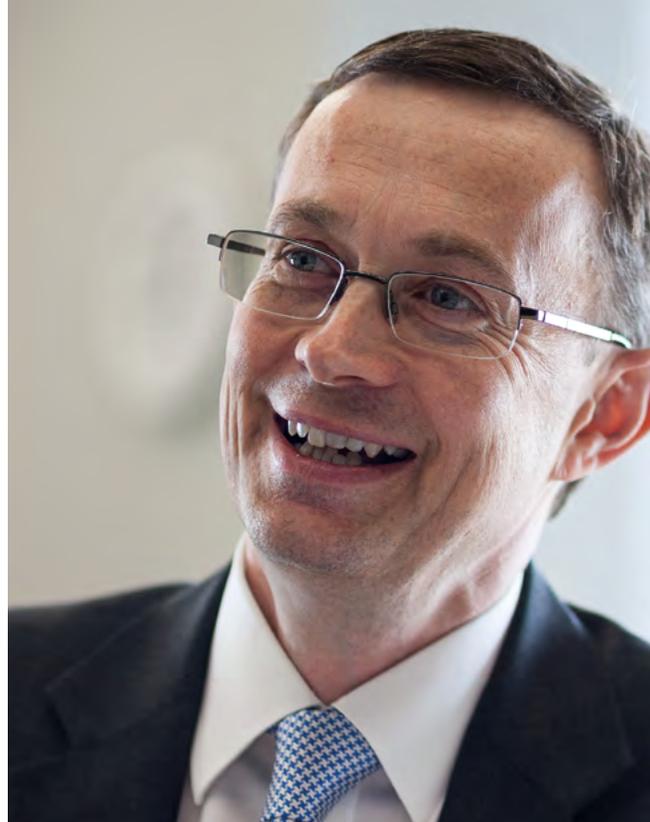
the amount that Shell held in cash and cash equivalents at the end of Q2 2015

**\$53bn**

the amount of debt Shell held at the end of Q2 2015

**\$160m**

the amount that Shell spent on voluntary social investment worldwide in 2014



when oil prices went up to \$100 per barrel and stayed there for several years,” says Chisholm. “So the current drop in oil prices is also an opportunity for us to reset the cost base. We will cut back on capital expenditure and operating expenditure, and look at ways to take cost out of the supply chain.”

The biggest challenge that the fall in oil prices has presented to Shell's treasury is the resultant fluctuation of cash flows. “When I'm looking at funding the group, we look at our cash-flow forecast one to two years out,” Chisholm explains. “The biggest driver of cash flows is the oil price, which gives a huge amount of variability to the cash-flow forecast. We know that the one-to-two-year forecast is always wrong, but we still need to look at the different scenarios for that forecast in order to ensure that we have sufficient liquidity available.”

## Cash is king

Talking of cash, this happens to be something that Shell has rather a lot of. At the end of the second quarter of 2015, the group had around \$27bn in cash reserves, up from \$9.7bn at the end of 2013. “We will run with large cash balances because we have large business cash flows, large financing cash flows and large working capital cash flows,” Chisholm explains. “It was a little higher than usual at the end of 2014 because we could see the way that the oil price was moving, so we borrowed around \$3.6bn from the capital markets in November.”

Shell needs to be able to invest in multibillion-dollar projects throughout the commodity cycle. Therefore, it takes a conservative approach to funding in order to maintain a strong balance sheet and to protect its prized AA credit rating. “The rating is there to support the business and it is something we have that allows us to say to host

“Clearly, the oil price is a significant challenge for us, because it is the main driver of our revenues. For every annual \$10-per-barrel move in the oil prices, there’s an annual impact on our cash flows of \$3bn”

governments: ‘We have the balance sheet strength for these multibillion-dollar projects,’ says Chisholm.

The group’s cash balances are funded primarily through capital markets debt, rather than bank financing. ‘We go to the capital markets whenever we see a good opportunity,’ says Chisholm. ‘The mantra of our previous group treasurer, Andy Longden, was: ‘You issue debt when you can, not when you have to.’ If that means we hold a little more cash sometimes, then so be it.”

Until it’s spent, the money raised on the markets is invested in a variety of instruments, including bank deposits, money market funds, corporate commercial papers and tri-party repos. Chisholm sits on the Shell treasury credit committee, which continuously monitors the credit quality of the company’s counterparties.

**Variety matters**

Out of all the roles he’s had at Shell, Chisholm particularly enjoyed managing the group’s UK defined benefit pension fund – to his own surprise. It was the variety of tasks that made the job so interesting, he says. ‘One day I’d be talking about investment strategy with the fund manager and the next I’d be talking to Shell pensioners about the economy.’ The job was made more challenging by the fact he started it on 15 September 2008, the day that Lehman Brothers collapsed.

He recalls: ‘My first call was to our in-house fund manager, saying, ‘What have we got with Lehman’s?’ And we did have some inflation swaps, but they were fully collateralised, so our losses were minimal. But it goes to show the critical importance of good treasury management around all of your counterparties.”

Looking back on the career that began in 1989, when he was a fresh-faced graduate, Chisholm says: ‘The biggest lesson I’ve learned during my career is that if I enjoy what I’m doing, I will do it well, and the rewards and progression will follow. I’m not advocating doing the same job all the time. It’s also very important to get variety, so sometimes you need to take risks to find out the things you might find interesting and enjoy.’



IAN’S TOP TIPS FOR SUCCESS

“You need to be the respected expert, so education and competency development are key. But you also must understand the business drivers and have a view on how the external environment impacts on the business.”

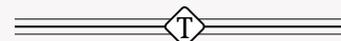
“The MCT is treasury at the strategic level. It has helped me to understand how to come up with solutions to the complex, multi-dimensional problems that you get in treasury. It’s also vital to progression to the most senior roles.”

“My favourite gadget is my sit-stand desk because I’ve had some back problems recently. It’s dramatically improved my posture over the past six months.”

“Treat everyone that you come into contact with as you would want to be treated yourself.”

“The most difficult question that my CFO is likely to ask is: ‘Can you give me a quick briefing on the latest financial regulations that impact Shell?’ Because it’s never quick!”

“The best way to unwind after a stressful day is to cook for family and friends, and enjoy a nice glass of wine.”



IAN’S CURRICULUM VITAE

**2012-present**  
Vice president financial markets, Shell

**2008-2012**  
General manager, UK Pension Fund, Shell

**2007-2008**  
Global treasury operations manager, Shell

**2004-2007**  
Treasurer, gas and power, Shell

**2001-2004**  
Senior M&A adviser, Shell

**1989-2000**  
Finance and treasury roles, Shell

**Qualifications**  
ACMA (1993); MCT (2000)

Sally Percy is editor of *The Treasurer*