

FITCH AFFIRMS ACOSS'S FRENCH CP & ECP PROGRAMMES AT 'F1+'

Fitch Ratings-Paris/London-07 April 2014: Fitch Ratings has affirmed ACOSS's (Agence Centrale des Organismes de Securite Sociale) EUR20bn Euro Commercial Paper (CP) programme and EUR25bn French CP programme Short-term local and foreign currency ratings at 'F1+'.

KEY RATING DRIVERS

The ratings reflect ACOSS's status as a state agency (EPA). They also reflect its critical role for the French state (AA+/Stable/F1+), as it manages cash flows for most social security institutions (SSI) and also collects social security, pension and unemployment contributions.

As an EPA, ACOSS benefits from an implicit solvency guarantee from the French state, which is ultimately responsible for its assets and liabilities. ACOSS's debt is fully consolidated in French general government debt.

The state exerts strong administrative, legal and financial oversight over ACOSS. It defines its strategy, monitors its management, and is one of ACOSS's main financial counterparties. Parliament sets ACOSS's annual revenue and expenditure projections as well as its borrowing limit. ACOSS's accounts are audited and certified annually by the national court of accounts.

Social security cash flows are highly predictable, enabling ACOSS to maintain a track record of accurate liquidity forecasts. Predictability is underpinned by the sizeable proportion of cash flows scheduled by contract (28% of revenue in 2013) and low operational risk, which is due to the automation of collection operations and tight control of payment processes. Macroeconomic trends or social security reforms usually do not have a short-term financial impact.

Funding is mostly market based and exclusively short term, as mandated by law. It is well diversified and relies on a EUR20bn ECP programme and a EUR25bn billets de tresorerie programme. The state, SSI and CADES (AA+/Stable/F1+) routinely purchase ACOSS's debt in order to mutualise available public cash (42% of 2013 funding). The state set ACOSS's borrowing cap at EUR34.5bn in 2014, up from EUR29.5bn in 2013. This reflects higher funding needs and ACOSS's willingness to keep liquidity buffers.

Liquidity risk management is sophisticated, in line with financial institution standards. ACOSS maintains excess liquidity buffers of EUR1bn and keeps a liquidity coverage ratio of 100% over 30 days. Caisse des Depots et Consignations (CDC, AA+/Stable/F1+) provides short-term loans and backup lines up to EUR3.7bn. As a public agency, ACOSS is eligible for last resort emergency funding from the state. Fitch considers it is very unlikely that ACOSS would require state support.

ACOSS's debt reflects the cumulated social security deficits, before their refinancing by CADES, the state agency in charge of amortising social debt. CADES bought EUR7.7bn of debt from ACOSS in 2013 and is likely to take over EUR10bn every year until 2017. Fitch expects ACOSS's debt to have increased to EUR23.9bn at end-2013, and to reach EUR25.4bn at end-2014, well below the borrowing cap

ACOSS's debt will remain high in the medium term due to the deficits of the social security system. Based on projections from the 2014 social security finance bill, Fitch believes ACOSS's debt could still exceed EUR17bn by 2017 without further refinancing from CADES or social security balancing measures.

RATING SENSITIVITIES

Negative rating action could result from a downgrade of France's Short-term ratings, an adverse change in ACOSS's legal framework, or from insufficient external funding.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Tax Supported Rating Criteria' dated 15 August 2012, and 'Ratings of Public Sector Entities - Outside the United States' dated 4 March 2014, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

Rating of Public Sector Entities - Outside the United States

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=701963

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