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CREDIT OPINION
14 September 2017

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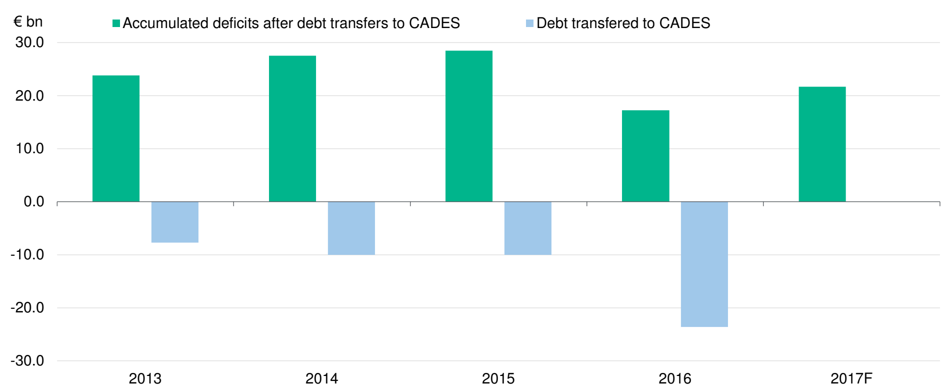
Agence Centrale des Organismes de Sécurité Sociale

Annual update

Summary

The Agence Centrale des Organismes de Sécurité Sociale's (ACOSS) P-1 rating reflects its status as an établissement public administratif (EPA), implying a high degree of support and supervision from the Government of France (Aa2, stable). We do not assign a baseline credit assessment to ACOSS. We believe the agency should be analysed as part of the central government to reflect the high level of government involvement in its governance, operations and controls, as well as its critical public service role.

Exhibit 1
No debt transfer planned from ACOSS to the Caisse d'amortissement de la dette sociale (CADES) in 2017



F: forecast
Sources: ACOSS, Moody's Investors Service

Credit strengths

» High degree of central government support and supervision, derived from the agency's EPA status

» Adequacy of cash facilities authorised by France's general social security finance law and unrestricted market access

» Good predictability of short-term cash flow, treasury risk management policy and strict procedures containing risks

Credit challenges

» Sensitivity of cash balances to economic cycles and political decisions

Rating outlook

We do not assign a rating outlook to ACOSS.

Factors that could lead to a downgrade

Any change in ACOSS's EPA status or reversal of its long-term financial balance by allowing its deficits to continue to rise without securing appropriate and timely funding would be considered a negative credit factor.

Key indicators

Exhibit 2
Key indicators
ACOSS

EUR billion	2013	2014	2015	2016	2017F
Cash position at YE before debt transfers of the year	-15.0	-13.7	-11.0	-12.3	-4.4
Debt transfers to CADES	7.7	10	10	23.6	0.0
Cash position at year end after debt transfers of the year	-7.3	-3.7	-1.0	11.2	-4.4
Accumulated deficits after debt transfers	-23.9	-27.5	-28.5	-17.2	-21.7

F: forecast
Sources: ACOSS, Moody's Investors Service

Issuer profile

ACOSS was created in 1967 as an établissement public administratif (EPA) with the specific purpose of managing the centralised cash flows of France's social security system ("sécurité sociale"). Contributions and tax receipts dedicated to social security funding, which totalled €486.0 billion in 2016 and are forecast to reach €498.5 billion in 2017, are transferred to ACOSS. The agency is then responsible for distributing adequate cash flows to each local or regional social security agency in charge of providing allowances and benefits (€498.4 billion in 2016; €502.9 billion forecast for 2017).

As social security expenses have traditionally exceeded contributions, ACOSS has historically recorded deficits. The total has been reduced on several occasions through transfers to the Caisse d'Amortissement de la Dette Sociale (CADES), an administrative agency whose sole purpose is to assume and redeem debt arising from ACOSS.

Detailed credit considerations

High degree of central government support and supervision derived from EPA status

Moody's Public Sector Europe considers ACOSS to be a government-related issuer (GRI). From a credit risk perspective, it is not meaningful to distinguish between ACOSS and the French government because of the intrinsic operational and financial ties between the two. As such, ACOSS's rating derives from the application of the approach for GRIs rated solely on support, as Moody's rating methodology for GRIs ("Government-Related Issuers: Rating Methodology", October 2014) describes.

ACOSS operates under the dual authority of the Ministry of Economy and Finance and the Ministry of Health.

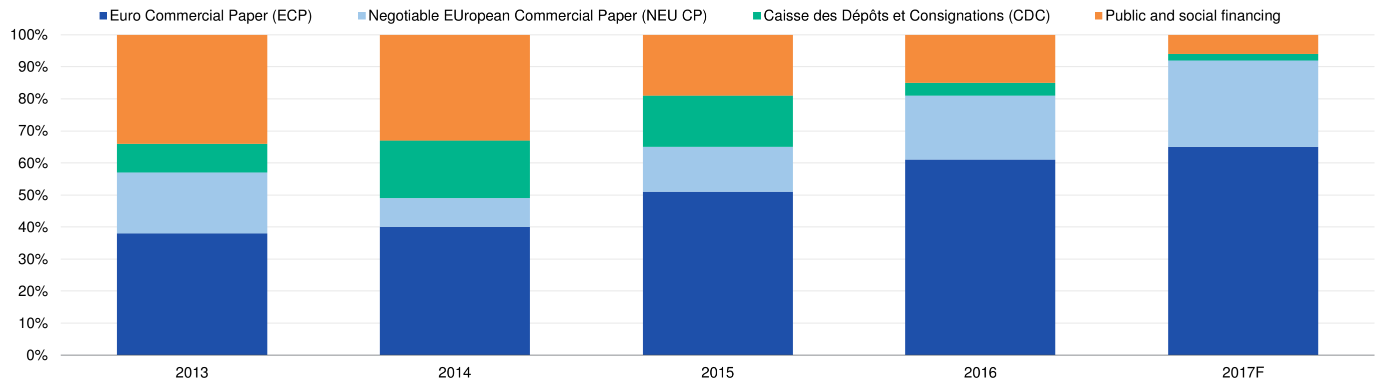
Adequacy of cash facilities authorised by social security budget law, unrestricted market access

The French government's commitment to ACOSS's financial sustainability ensures that it has access to liquidity facilities in line with its needs. In the social security budget law ("Loi de Financement de la Sécurité Sociale", or LFSS), the government sets an annual limit ("plafond de ressources non permanentes") on the maximum outstanding short-term debt that ACOSS can hold.

ACOSS benefits from credit facilities provided by the state-owned financial institution Caisse des Dépots et Consignations (CDC) via a multi-year financial agreement, which was renewed in 2015 for four years. In addition to credit facilities of €10 billion with a maturity of between three and 12 months, ACOSS benefits from additional financing of €2.5 billion, with a maturity of up to seven days, used to cover cash receipts and disbursements mismatches (called "tuiles" loans in French), and €1.5 billion in the form of an overdraft facility with a maturity of up to 24 hours. In 2017, taking into account ACOSS's access to financial markets (see below) and CADES and French Treasury (Agence France Trésor) contributions, no additional financing facility was requested from the CDC.

Due to increased borrowing requirements in recent years, ACOSS has increasingly turned to financial markets to raise short-term funding. In 2016, it became the second-largest issuer of euro commercial paper (ECP) globally. The agency's short-term funding programmes include: 1) an ECP programme totalling €25 billion whose currency risk is systematically hedged; and 2) a French treasury notes programme (negotiable European commercial paper, or NEU CP) totalling €25 billion, part of which is subscribed by the French Treasury and CADES. Moreover, the central government can transfer ACOSS's additional deficits to CADES. We also note positively that ACOSS maintains a liquidity buffer of €700 million with the CDC (€500 million) and Banque de France (€200 million).

Exhibit 3
ACOSS has increasingly turned to financial markets to raise short-term funding



F: forecast
Sources: ACOSS, Moody's Investors Service

Good predictability of short-term cash flow; treasury risk management policy and strict procedures containing risks

As the central government has ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, the agency's management and organisational structure reflect the government's influence and oversight. We note that, since 2012, ACOSS has implemented a system that enhances its liquidity risk management, a positive in respect of the quality of its risk management and internal controls.

Since 2012, ACOSS has been developing and implementing its treasury risk management policy ("politique et encadrement des risques de trésorerie"). The policy and associated reporting tools give operational status to a legal ordinance (5 May 2009) defining liquidity risk. The result is a mix of best practices (e.g., diversification of funding sources), detailed and regularly updated reports (including reports to monitor internally developed liquidity ratios, similar to the Basel 3 liquidity coverage ratio) and strict procedures (e.g., in case of liquidity cash flow stress). Operational risk, interest rate risk, exchange rate risk and counterparty risk are also assessed, monitored and contained. For example, an interest rate sensitivity analysis is conducted each year and the use of hedging strategies is derived from it.

Sensitivity of cash balances to economic cycles, political decisions

ACOSS's treasury position has traditionally reflected the annual deficits that the healthcare and pension branches of the social security system incur. At the end of 2010, the agency recorded an unprecedented accumulated deficit of €49.5 billion (of which €25.4 billion was accumulated solely in 2010).

Since 1996, debt transfers from ACOSS to CADES have occasionally significantly improved ACOSS's cash position. In 2011, the agency transferred €65.3 billion to CADES, corresponding to the social security system's accumulated deficits for 2009, 2010 and 2011. As a result, at the end of 2011, ACOSS reported an accumulated deficit of €4.7 billion.

Since 2012 (and until 2018), CADES has funded the social security system's deficits on a yearly basis (limited to €10 billion per year and/or €62 billion over the 2011-18 period). ACOSS transferred €6.6 billion of its deficit to CADES in 2012, €7.7 billion in 2013, and €10 billion in 2014 and 2015. In 2016 it transferred €23.6 billion, which corresponds to the balance of possible reversals under the law. As a result, no debt transfer to CADES is planned by the end of 2017 and ACOSS's accumulated deficit is expected to reach €21.7 billion, up from €17.2 billion at the end of 2016.

The general social security budget law has set ACOSS's borrowing limit at €33 billion for the whole of 2017. This should enable the agency to fund its deficits, with an estimated low point in December 2017, for a maximum amount of €31.7 billion.

We note that the 2015 social security budget law proposal allowed ACOSS to make loans of one to 12 months to the Caisse nationale de la mutualité sociale agricole (CNMSA). In 2016, this facility was extended to the Caisse autonome nationale de la sécurité sociale des mines (CANSSM). Both agreements were signed within a well-defined and government-approved framework, in line with the government's treasury mutualisation strategy for social security entities, with the goal of reducing CNMSA's and CANSSM's funding costs, which are currently higher than those of ACOSS. Since the beginning of 2017, ACOSS has been financing 100% of CNMSA's and CANSSM's cash flow needs, representing an average amount of €4.0 billion over the year.

Rating methodology and scorecard factors

In our assessment of ACOSS's credit profile, we apply our global rating methodology for government-related issuers, published in August 2017. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 4

Category	Moody's Rating
AGENCE CENTRALE ORGANISMES SECURITE SOCIALE	
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

REPORT NUMBER 1083932

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