Agence Centrale des Organismes de Securite Sociale (ACOSS) (/gws/en/esp/issr/84359470)

FitchRatings

Fitch Rates ACOSS 'AA'; Outlook Stable

Fitch Ratings-Paris-27 March 2018: Fitch Ratings has assigned Agence Centrale des Organismes de Securite Sociales (ACOSS) Long-Term Foreign and Local-Currency Issuer Default Ratings (IDR) of 'AA'. The Outlook is Stable. Fitch has also affirmed ACOSS's EUR40 billion euro commercial paper (ECP) programme and EUR40 billion Neu commercial paper (NeuCP) programme's at short-term 'F1+'. These two programmes constitute senior unsecured debt of ACOSS.

ACOSS is only allowed to issue notes with maturity of less than a year through its two programmes (ECP and NeuCP).

The ratings reflect the status of ACOSS as a public agency, its strategic importance to the government and its tight control by the French State (AA/Stable/F1+). In line with the top-down approach in Fitch's government-related entities rating criteria, ACOSS's ratings are equalised with and credit-linked to France's ratings.

KEY RATING DRIVERS
The equalisation of ACOSS's ratings with those of the sovereign reflects the following assessments on the rating factors:

Status, Ownership and Control (Very Strong)
ACOSS is an administrative public agency and as such is eligible for last-resort emergency funding from the State. All of its assets and liabilities would be automatically transferred to the State in case of dissolution.

The State exercises strong administrative, legal and financial oversight over ACOSS, by defining its strategy and monitoring its management through a plan, called 'convention d'objectifs et de gestion' (COG). Fitch understands from management that the new 2018-2022 plan is due to come into force in the next few months. The French parliament sets a short-term borrowing ceiling for ACOSS (EUR38 billion in 2018 from EUR33 billion in 2017) and determines ACOSS's revenues and expenditures.

Support Track Record and Expectations (Strong)
Beyond the annual borrowing ceiling voted every year by the Parliament, the State benefits from several means to support ACOSS. The State, by law, can allow CADES (AA/Stable/F1+) to assume parts of ACOSS's carried-over deficit. Since 2010 CADES has taken over EUR123 billion of debt from ACOSS. Fitch understands from management that no further debt is expected to be taken over in the short-to medium-term.

The State (and CADES) can also provide support by purchasing NeuCP issued by ACOSS: close to 44% of NeuCP issued in 2017 were purchased by public agencies. This helps optimise available public cash. As a public agency, ACOSS also benefits from cash advances from the Treasury. ACOSS also benefits from a multi-year banking agreement with Caisse des Depots et Consignations (CDC; AA/Stable/F1+), which provides bank financing in addition to market funding.

Socio-Political Implications of Default (Very Strong)
ACOSS carries very high strategic importance for the French social security system as it manages cash flows for the Social Security and Family Allowance Contribution Collection Offices (URSSAF) and most social security institutions (SSIs) and collects social security, pension and unemployment contributions. It has no substitute and a new law would be required for a replacement of ACOSS. In addition a failure to pay the social benefits on a timely basis would have a serious social and political impact.

ACOSS relies on external short-term financing to fund the timing difference between the social contributions collected and the benefits paid. ACOSS accesses the markets with its EUR40 billion NeuCP programme and its EUR40 billion ECP programme

Fitch views the socio-political impact of a default by ACOSS as very serious due to its strategic importance at the heart of the French social security system and to its heavy reliance on financial markets.

Financial Implications of Default (Very Strong)
Fitch views ACOSS's integration into the general government sector as being highly supportive of the entity's credit quality. ACOSS is closely integrated with the State, as its debt is included in the general government debt according to European System of Accounts (ESA95).

ACOSS is one of the largest French issuers of CP with EUR140 billion of NeuCP issued in 2017 (12% of all NeuCP issued in France in 2017) and EUR87 billion of ECP.

Fitch views a default by ACOSS as having a negative impact not just on the overall funding of the social security system, but also on the quality of the French sovereign's credit quality as ACOSS is almost a proxy financing vehicle for the State.

RATING SENSITIVITIES
Negative rating action could result from a downgrade of France's ratings, an adverse change in ACOSS's legal framework, or from insufficient external funding in terms of back-up lines for the short-term programmes.

A positive rating action would result from an upgrade of France's ratings.

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Applicable Criteria
Government-Related Entities Rating Criteria (pub. 07 Feb 2018) (https://www.fitchratings.com/site/re/10019302)
International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/878660)

Additional Disclosures

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