

## CREDIT OPINION

20 September 2016

Rate this Research >>

### Contacts

Sebastien Hay 34-91-768-8222  
VP-Sr Credit Officer  
sebastien.hay@moodys.com

David Rubinoff 44-20-7772-1398  
MD-Sub Sovereigns  
david.rubinoff@moodys.com

# Agence Centrale Organismes Securite Sociale

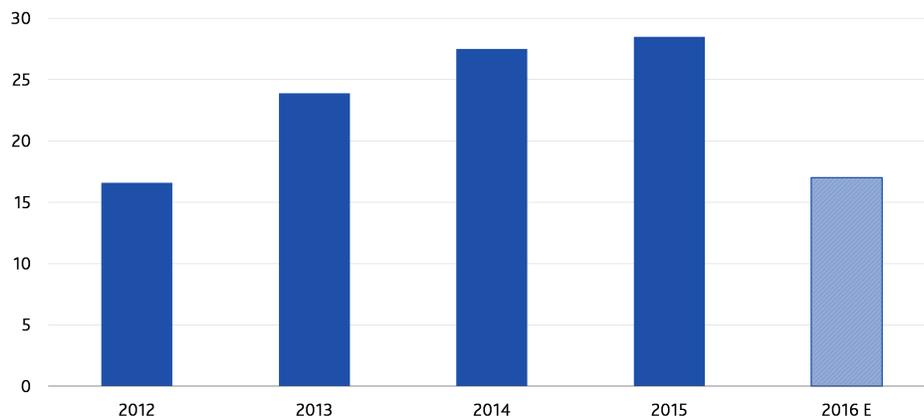
Annual Update

## Summary Rating Rationale

The P-1 rating reflects ACOSS's status as an Établissement Public Administratif (EPA), implying a high degree of support and supervision from the national government. MPSE does not assign a baseline credit assessment (BCA) to ACOSS because it believes that it should be analysed as part of the central government to reflect the high level of government involvement in its operations and governance, as well as its critical public service role.

Exhibit 1

### ACOSS's accumulated deficit after debt transfers to CADES (EUR billion)



E - estimated

Source: ACOSS's annual accounts, MPSE

## Credit Strengths

- » High degree of central government support and supervision derived from its EPA status
- » Adequacy of cash facilities authorised by the French general social security finance law (LFSS) and unrestricted market access
- » Good predictability of short-term cash flows and implementation of policies aimed at reducing technical 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 any reversal in 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

### ACOSS

EUR billion	2012	2013	2014	2015	2016 E
Cash position at YE before debt transfers of the year	-18.6	-15.0	-13.7	-11.0	-12.1
Debt transfers to CADES	6.6	7.7	10	10	23.6
Cash position at year end after debt transfers of the year	-12.0	-7.3	-3.7	-1.0	11.5
Accumulated deficits after debt transfers	-16.6	-23.9	-27.5	-28.5	-17.0

E - estimated

Source: ACOSS's annual accounts, MPSE

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

### Issuer profile

ACOSS was created in 1967 as an EPA with the specific purpose of managing the centralised cash flows of France's social security system. Contributions and tax receipts dedicated to social security funding (totalling EUR489.3 billion in 2015) are transferred to ACOSS, who is then responsible for transferring adequate cash flows to each local social security agency in charge of providing allowances and benefits (EUR500.3 billion in 2015). Given that social security expenses have traditionally exceeded contributions, ACOSS has historically recorded deficits, with the total being reduced on several occasions through transfers to CADES - an administrative agency whose sole purpose is to assume and redeem debt arising from ACOSS.

### Detailed Rating Considerations

#### HIGH DEGREE OF CENTRAL GOVERNMENT SUPPORT AND SUPERVISION DERIVED FROM ITS EPA STATUS

MPSE considers ACOSS to be a government-related issuer. 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 described in Moody's rating methodology for government-related issuers entitled "Government-Related Issuers: Methodology Update" published in October 2014.

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

#### ADEQUACY OF CASH FACILITIES AUTHORISED BY THE LFSS AND UNRESTRICTED MARKET ACCESS

The French government's commitment to ACOSS's financial sustainability ensures access to liquidity facilities that are 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 ACOSS can have.

ACOSS benefits from credit facilities provided by the state-owned financial institution Caisse des Depots et Consignations (CDC), via a multi-year financial agreement, renewed in 2015 for 4 years. On top of the credit facilities of EUR10 billion which have a maturity between 3 and 12 months, ACOSS benefits from additional financing of EUR2.5 billion with a maturity of up to 7 days used to cover cash receipts and disbursements mismatches ("tuiles" loans) and EUR1.5 billion in the form of an overdraft facility with a maturity of up to 24 hours. In 2016, given the EUR 23.6 billion debt transfer to CADES and hence reduced financing needs, ACOSS will not use its EUR10 billion facility with CDC.

In addition, following increased borrowing requirements in recent years ACOSS has diversified its short-term funding sources. These include (i) a treasury notes programme (BT) of EUR25 billion, part of it being subscribed by the French treasury and CADES in line with the government's emphasis on treasury mutualisation and optimisation between the different social security entities ; and (ii) a Euro Commercial Paper programme sized at EUR20 billion, whose currency risk is hedged. Moreover, the central government can decide to transfer ACOSS's additional deficits to CADES. We positively note that ACOSS maintains a liquidity buffer of EUR700 million with CDC (EUR500 million) and with Banque de France (EUR 200 million).

#### GOOD PREDICTABILITY OF SHORT-TERM CASH FLOWS AND IMPLEMENTATION OF POLICIES AIMED AT REDUCING TECHNICAL RISKS

As the central government has the ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, its 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 with regards to the quality of ACOSS's risk management and internal controls.

#### SENSITIVITY OF CASH BALANCES TO ECONOMIC CYCLES AND POLITICAL DECISIONS

The treasury position of ACOSS has traditionally reflected the annual deficits incurred by the healthcare and pension branches of the social security system. At year-end 2010, ACOSS recorded an unprecedented accumulated deficit of EUR49.5 billion (of which EUR25.4 billion was derived solely in 2010). Since 1996, debt transfers from ACOSS to CADES have occasionally resulted in significant improvements in ACOSS's cash position. In 2011, ACOSS transferred a total of EUR65.3 billion to CADES, corresponding to the social security system's accumulated deficits for 2009, 2010 and 2011. As a result, at year-end 2011, ACOSS reported an accumulated deficit of EUR4.7 billion. Since 2012 and until 2018, CADES funds the deficits of the social security system on a yearly basis (limited to EUR10 billion per year and EUR62 billion over the 2011-2018 period). ACOSS transferred EUR6.6 billion of its 2012 deficit to CADES, EUR7.7 billion in 2013 and EUR10 billion in 2014 and 2015. The 2016 PLFSS provides for the removal of the EUR10 billion annual limit and the

possibility to anticipate transfers in 2016 from ACOSS to CADES for an amount of €23.6 billion. This measure reflects the low interest rate environment which will allow CADES to minimise its financing costs and will significantly reduce ACOSS's accumulated deficit. As a result, ACOSS expects the accumulated deficit to decrease at EUR 17 billion as at YE 2016, down from EUR28.5 billion at YE2015.

In 2016, the general social security budget law sets ACOSS's borrowing limit at EUR40 billion for the first 7 months of the year and at EUR30 billion from August to December 2016. This should enable ACOSS to fund its deficits, with an estimated low-point of EUR33.3billion in January 2016. We note that the 2015 social security budget law proposal allowed ACOSS to make loans of 1 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 securite sociale dans les mines (CANSSM). Both agreements have been 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 ACOSS's. ACOSS estimates the total amount of these loans over 2016 to not exceed EUR2.9 billion.

### 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 October 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

### Ratings

Exhibit 3

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

Source: Moody's Investors Service

Moody's Public Sector Europe is the trading name of Moody's Investors Service EMEA Limited, a company incorporated in England with registered number 8922701 that operates as part of the Moody's Investors Service division of the Moody's group of companies.

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1037213

## Contacts

Sebastien Hay  
VP-Sr Credit Officer  
sebastien.hay@moodys.com

34-91-768-8222

Nadejda Seu  
Associate Analyst  
nadejda.seu@moodys.com

44-20-7772-8738

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454