STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

French Social Security Agency ACOSS 'A-1+' Short-Term Rating Affirmed

Primary Credit Analyst:
Marie-France Raynaud, Paris (33) 1-4420-6754; marie-france.raynaud@standardandpoors.com

Secondary Contact:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@standardandpoors.com

Table Of Contents

1395941 | 301352851

Research Update:

French Social Security Agency ACOSS 'A-1+' Short-Term Rating Affirmed

Overview

- We think Agence Centrale des Organismes de Sécurité Sociale (ACOSS) plays a "critical" role for the French government, enshrined in law, in collecting and redistributing France's general scheme social security contributions.
- ACOSS' status as a public-sector body implies strong state supervision and support, and therefore an "integral" link between ACOSS and the central government, in our opinion.
- In our view, there is an "almost certain" likelihood that the French government would provide timely and sufficient extraordinary support to ACOSS if needed.
- We are affirming our 'A-1+' short-term rating on ACOSS.

Rating Action

On April 28, 2015, Standard & Poor's Ratings Services affirmed its 'A-1+' short-term issuer credit rating on France's central social security agency, Agence Centrale des Organismes de Sécurité Sociale (ACOSS).

At the same time, we affirmed our 'A-1+' issue ratings on ACOSS' €25 billion French commercial paper (CP) program and €20 billion Euro CP program.

Rationale

We equalize our rating on ACOSS with our short-term sovereign credit rating on France (unsolicited AA/Negative/A-1+). This is because, according to our criteria, there is an "almost certain" likelihood that the French government would provide timely and sufficient extraordinary support to ACOSS in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), such as ACOSS, we base our rating approach on our view of ACOSS' "critical" role for and "integral" link with the French government. Furthermore, we consider that the French government's "limited" level of contingent liabilities does not constrain its capacity and willingness to support ACOSS in a timely manner if the agency is in financial distress. More generally, we don't consider the government's general propensity to support the GRE sector to be "doubtful."

France's constitutional laws, set in 1945, safeguard the French population's right to receive social protection. We consequently consider ACOSS' role for the French government to be "critical" and that it will remain so, since it primarily consists of supervising and centralizing the collection of contributions to France's Social Security General Scheme and ensuring their timely redistribution. These social transfers include one-half of health, work accident, and illness benefits; one-third of old age pensions; and family benefits. Theses transfers concern the majority of French people, and their timely payment, especially of pensions, is crucial. General scheme expenditures will likely account for about 60% of France's total social security expenditures and 20% of GDP in 2015.

Furthermore, as part of the French social security system, ACOSS was set up in 1967 as a public administrative agency ("Établissement Public à Caractère Administratif d'État"; EPA). Owing to this status, we view the government as ultimately responsible for ACOSS' solvency. ACOSS' legal status, mission, and funding are precisely framed by law, which, in our opinion, entails an "integral" link between the agency and the French government. We don't expect any change in ACOSS' legal status.

The Ministry of Health and Social Affairs and the Ministry of the Budget provide strong and broad state supervision of ACOSS. ACOSS' director is appointed by decree and reports directly to the ministries. The director's main mandate is to strictly implement the central government's decisions and policies on the social security system. Since 1996, ACOSS has signed multiyear contracts with the government laying out its objectives. The current contract runs from 2014 to 2017.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws (PLFSS and LFSS). For 2015, ACOSS' external funding ceiling is set at €36.3 billion, compared with €34.5 billion in 2014, €29.5 billion in 2013, and €22 billion in 2012. The 2015 ceiling takes into account the deficits accumulated by the Social Security General Scheme over previous years (€28.8 billion at the end of 2014 and €23.8 billion in 2013); the expected additional shortfall of €10.5 billion by the end of 2015, highlighting the persistent gap between social contributions and drawings; and €10 billion in gradual debt transfers to the sinking fund, CADES (Caisse d'Amortissement de la Dette Sociale), which redeems France's social debt.

In our view, ACOSS will not need this ceiling to be raised in 2015, given the expected containment in social security spending growth enshrined in law, despite uncertainties mainly related to health expenditures not covered by the national health care expenditure target. In addition, this is due to the government's relatively conservative forecasts on social contributions, based on realistic assumptions on wage bill progression. Furthermore, we expect the implementation in 2015 of the Responsibility Pact announced in January 2014, which aims to reduce overall labor costs through cuts in social contributions, to have a neutral impact on the general social security scheme. The implied reduction in social contributions, which we estimate at about €6 billion in 2015, is intended to be compensated by the transfer of new resources under the 2015 Social Security Funding Law (LFSS), and tighter control of health spending.

Liquidity

ACOSS manages more than €2 trillion per year in cash flows from social security contributions for the general scheme or on behalf of third parties, drawings on social benefits, and debt refinancing. We estimate that its daily average short-term funding needs will increase to about €27 billion in 2015, compared with €21.3 billion in 2013.

In our view, ACOSS' liquidity-management challenges are increased by two main constraints: It is prohibited by law from taking on long-term debt, and there is no systematic and full transfer of previously accumulated deficits to the dedicated amortization fund. As a result, ACOSS faces persistent mismatches between its exclusively short-term liquidity sources and long-term funding needs.

Nonetheless, cash management is sophisticated; it is based on prudent planning, and clear and efficient policies and procedures. ACOSS has increased the predictability of its cash inflows, which pose the biggest risk, by securing hundreds of agreements with counterparties that specify the exact day of payments. ACOSS has also increased the monitoring of its cash outflows through information technology systems that set the dates for drawings, putting an end to the historical liquidity risk related to drawing rights granted to social-benefit paying funds on ACOSS' operational account. More generally, the development of a system of netting cash flows with partners has limited intraday risk.

Another factor supporting ACOSS' liquidity management at a contained cost is the diversification, since 2006, of the sources of funding from French government financing agency, Caisse des Dépôts et Consignation (CDC), through market funding and the cash-pooling of social security entities. CDC's loans represented 72% of ACOSS' financing in 2010, but about 15% in 2014. Over the same period, the share of ACOSS' funding from cash-pooling increased to 25% from 12% and that of market funding to 49% from 16%. To cover its short-term funding needs in 2015, ACOSS will likely continue to largely rely on its capital market instruments: the €20 billion Euro CP program and €25 billion French CP program. ACOSS' access to the short-term capital markets has been supported by the eligibility of its CP for the European Central Bank's (ECB's) repurchase operations. Since March 2015, ACOSS has benefitted from the ECB's public-sector purchase program, subject to the condition that the yield to maturity remains above the ECB's deposit facility rate.

ACOSS' reliance on the markets is mitigated by having about 80% of its French CP program secured by French public-sector entities. Moreover, ACOSS has already secured €2.5 billion in short-term loans for 2015 and a €6 billion medium-term loan with CDC. Ultimately, if necessary, we estimate that ACOSS has back-up liquidity of about €3.5 billion at its disposal through its €1.2 billion available cash advances from CDC, as well as back-up lines from commercial banks, which we understand are committed lines, of more than €1.5 billion, and two back-up deposit accounts at the French central bank, Banque de France (€200 million), and CDC (€500 million). In addition, ACOSS' overfunding strategy provides a further liquidity cushion.

It is very unlikely, in our opinion, that ACOSS will face liquidity stress, given its tight management of incoming and outgoing cash flows. Moreover, ACOSS secures its short-term funding in advance of required payments. In addition, we consider part of ACOSS' payments to be deferrable for a short period, if needed, particularly some health insurance benefits. We would not expect any deferral of pension payments.

We believe that, as a last resort, ACOSS would have prompt access to emergency funding from the French treasury, either through purchases of CP, as allowed for EPAs under France's finance law, or through funding from the state's public debt fund ("Caisse de la Dette Publique"). We also believe that ACOSS would anticipate--well in advance--any need for, and swiftly obtain, a further extension of its annual borrowing ceiling, as was the case in July 2009.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Governments - Sovereigns: Sovereigns And Equalized GREs Commercial Paper Rating Methodology - March 29, 2012

Ratings List

	Ratings	
	To	From
Agence Centrale des Organismes de Securite Sociale (ACOSS)		
Issuer credit rating		
Foreign and Local Currency	--/--/A-1+	--/--/A-1+
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com