MOODY'S
PUBLIC SECTOR EUROPE

Credit Opinion: Agence Centrale des Organismes de Sécurité Soc.

Global Credit Research - 22 Sep 2015

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Ratings

Category	Moody's Rating
Commercial Paper -Dom Curr	P-1

Contacts

Analyst	Phone
Nicolas Fintzel/London	44.20.7772.5454
David Rubinoff/Moody's Investors Service EMEA LTD	

Key Indicators

Agence Centrale des Organismes de Sécurité Soc.

EUR billion	2010	2011	2012	2013	2014
Cash position at year end before debt transfers of the year	-25.4	-20.5	-18.6	-15.0	-13.7
Debt transfers	0	65.3	6.6	7.7	10
of which transfer to CADES	0	65.3	6.6	7.7	10
of which transfer to central government	0	0	0	0	0
Accumulated deficits after debt transfers	-49.5	-4.7	-16.6	-23.9	-27.5

Opinion

SUMMARY RATING RATIONALE

On 21 September 2015 Moody's Public Sector Europe (MPSE) affirmed the Prime-1 (P-1) short-term rating of the Agence Centrale des Organismes de Sécurité Sociale (ACOSS).

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.

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.

What Could Change the Rating - Down

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.

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 EUR476.2 billion in 2014) 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 (EUR489.9 billion in 2014). 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. 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 December 2014 for 4 years. In 2015, ACOSS is allowed to borrow from the CDC within a EUR9.7 billion limit. The new agreement implements a mechanism by which ACOSS's commercial paper (Billets de Trésorerie, BT) can be purchased by the CDC.

In addition, ACOSS has diversified its short-term funding sources following increased borrowing requirements in recent years. 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.

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 EUR4.7billion. Since 2012 and until 2018, CADES funds the deficits of the pension 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. Nevertheless, given that its yearly deficits were greater than the amounts transferred (total deficit for the 2012-14 period of EUR47.2 billion), at year-end 2014, the deficit left in ACOSS's balance sheet stood at EUR27.5 billion (increasing from EUR23.9 billion at YE2013).

The general social security budget law for 2014 also allowed ACOSS to include the deficits of the Family and Healthcare branches of the social security system in the yearly amounts transferred to CADES (within the aforementioned limits of EUR10 billion and EUR62 billion), a credit positive for ACOSS. As a result, in 2014, in addition to the pension system's EUR6 billion deficit from 2013, an additional EUR4 billion, corresponding to the healthcare branch's (CNAMTS) 2012 deficit, were transferred to CADES.

In 2015, the general social security budget law proposal sets ACOSS's borrowing limit at EUR36.3 billion, which should enable ACOSS to fund its deficits, with an estimated low-point of EUR34 billion in 2015. We note that the 2015 social security budget law proposal allows ACOSS to make loans of 1 to 12 months to the Caisse nationale de la mutualité sociale agricole (CNMSA), within a well-defined and government-approved framework, in line with the government's treasury mutualisation strategy for social security entities. The total amount of these loans over 2015-2017 cannot exceed EUR3.8 billion, with the goal of reducing CNMSA's funding costs, which are currently higher than ACOSS's.

ABOUT MOODY'S SUB-SOVEREIGN RATINGS

National and Global Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

The Moody's Global Scale rating for issuers and issues allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

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 http://www.moodys.com for the most updated credit rating action information and rating history.

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