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Summary:

Agence Centrale des Organismes de Securite Sociale (ACOSS)

Primary Credit Analyst:
Marie-France Raynaud, Paris +33 (0)1 44 20 67 54; marie-france.raynaud@standardandpoors.com

Secondary Contacts:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@standardandpoors.com
Christophe Dore, Paris (33) 1-4420-6665; christophe.dore@standardandpoors.com

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Summary:

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Credit Rating:	--/--/A-1+

Rationale

We equalize our rating on ACOSS with our short-term sovereign credit rating on the Republic of France (unsolicited AA/Stable/A-1+) because we consider, under our criteria, that 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.

The French government created ACOSS 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.

France's constitutional laws safeguard the French population's right to receive social protection. We consequently consider ACOSS' role for the French government to be "critical," since it primarily consists of supervising and centralizing the collection of French Social Security General Scheme contributions and ensuring their redistribution. General Scheme expenditures should continue to account for about 16% of national GDP in 2014.

Furthermore, 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. The Ministry of Social Security 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.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws. For 2014, ACOSS' external funding ceiling is set at €34.5 billion, compared with €29.5 billion in 2013. The ceiling takes into account the permanent deficits accumulated over the previous years, the expected additional cash gap by the end of 2014, gradual debt transfers to the sinking fund, CADES (Caisse d'Amortissement de la Dette Sociale), which redeems French social debt.

In our view, ACOSS will not need this ceiling to be raised in 2014 since we consider that it reached its yearly short-term cash requirement peak of €28.5 billion in April. The implementation in 2015 of the Responsibility Pact announced in January 2014, which comprises cuts in social contributions of about €30 billion by 2015, among other things, will likely translate into a slowdown in growth in real social expenditures to less than 0.5% on average between 2014 and 2017 from 1.7% in 2013.

Liquidity

ACOSS manages billions of euros of cash flows (social security contributions, drawings on social benefits, debt refinancing) daily, amounting to about €2 trillion over a year.

In our view, ACOSS' liquidity management is sophisticated and based on prudent planning, and clear and efficient policies and procedures.

ACOSS has increased the predictability of its cash inflows, which bear the biggest uncertainty. With its counterparts, it has secured hundreds of agreements that specify the exact day of payments. ACOSS has also increased the monitoring of its cash outflows through IT programming of the demand for drawings, putting an end to the historical liquidity risk related to the "drawing right" on ACOSS' operational account granted to social benefit paying funds. More generally, the developing of the netting of flows with partners has limited the "intraday" risk.

In this context, we consider that the reinforcement of the IT framework, currently in progress, is supporting liquidity management. The efforts made in improving the ability to forecast cash inflows and outflows are also a positive factor. The diversification since 2006 of the sources of funding from French government financial arm Caisse des Dépôts et Consignations (CDC), through market funding and through the cash-pooling of social security entities, also underpins liquidity management at a contained cost.

ACOSS covers social security cash gaps and deficits with short-term funding only, as stipulated by the law. In 2014, we estimate that daily average short-term funding needs will increase to about €21.3 billion, compared with €19 billion in 2013.

To cover its short-term funding needs in 2014, ACOSS will continue to rely mainly on its capital market instruments--its euro commercial paper (CP) program and its French CP program. In 2013, market funding represented about 60% of ACOSS' external funding.

The reliance on the market is nevertheless mitigated by the fact that about one-half of ACOSS' French CP program is secured by French public entities. Moreover, ACOSS has access to short- and medium-term loans from CDC. Ultimately, if necessary, ACOSS has back-up liquidity lines from CDC and from commercial banks, as well as two back-up deposit accounts at Banque de France, the French central bank, and at the CDC. Last but not least, ACOSS' overfunding strategy allows for 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 French finance law, or through funding from the state's Public Debt Fund (Caisse de la Dette Publique). We also believe that ACOSS would anticipate any need for, and swiftly obtain, a further extension of its annual borrowing ceiling well in advance, as was the case most recently in July 2009.

Related Criteria And Research

- Sovereigns And Equalized GREs Commercial Paper Rating Methodology, March 29, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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