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Research Update:

French Social Security Agency ACOSS Short-Term 'A-1+' Rating Affirmed On Integral Link, Critical Role To French State

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Table Of Contents

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Overview

- We think French social security agency Agence Centrale des Organismes de Sécurité Sociale (ACOSS) plays a "critical" role for the French state.
- Strong supervision by the French state and a precise legal framework give ACOSS an "integral" link with the central government, in our opinion.
- We think there is an "almost certain" likelihood that the French government would provide timely and sufficient extraordinary support to ACOSS.
- We are affirming our 'A-1+' short-term rating on ACOSS.

Rating Action

On April 30, 2013, Standard & Poor's Ratings Services affirmed its 'A-1+' short-term issuer credit rating on the French social security system's central agency, Agence Centrale des Organismes de Sécurité Sociale (ACOSS). At the same time, we affirmed our 'A-1+' debt ratings on ACOSS' €25 billion French commercial paper program (CP) and €20 billion Euro CP program.

Rationale

We equalize our rating on ACOSS with our short-term sovereign credit rating on the Republic of France (AA+/Negative/A-1+, unsolicited) because we consider, according to 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), our rating approach is based on our view of ACOSS' "critical" role for and "integral" link with the French state.

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 state as ultimately responsible for ACOSS' solvency.

France's constitutional laws enshrines the French population's right to receive social protection. We therefore consider ACOSS' role for the French government to be "critical", since its role primarily consists of supervising and centralizing the collection of French Social Security General Scheme contributions and ensuring their redistribution. General Scheme expenditures accounted for 16% of national GDP in 2012.

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 state. 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 state 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 2013, ACOSS' external funding ceiling is set at €29.5 billion, compared with €22 billion in 2012. This increase was initially based upon three main assumptions: ACOSS' short-term cash requirement of €18.6 billion at year-end 2012 (€16.6 billion on actuals), €8.1 billion debt transfers to Caisse d'Amortissement de la Dette Sociale in 2013 (€7.7 billion on actuals), and a €15.8 negative cash flow gap for the year (including a €2.6 billion deficit of the Solidarity Pension Fund). In our view, ACOSS will not need this ceiling to be raised in 2013, and we consider that it reached its yearly short-term cash requirement peak in April (at €27.2 billion).

Liquidity

In our view, ACOSS' liquidity management is sophisticated and based upon prudent planning. We consider that ACOSS has clearly identified the main liquidity risks it could eventually face and has implemented clear and efficient policies and procedures to minimize them. Under the current contract with the government for 2010-2013, ACOSS has further improved several aspects of its liquidity management, including the diversification of its funding sources, the monitoring of its cash outflows through dematerialization of drawings demand (putting an end to the historical liquidity risk related to the "drawing right" on ACOSS' operation account granted to social benefit paying funds), and the optimization of its cash inflows. From 2013, ACOSS will provide an annual report on the management of its liquidity risk to the French parliament.

ACOSS covers social security cash gaps and deficits with short-term funding only. In 2013, we estimate that daily average short-term funding needs will increase to around €19 billion, compared with €8.1 billion in 2012.

To cover its short-term funding needs in 2013, ACOSS will mainly rely on its capital market instruments--its €20 billion Euro CP program and its €25 billion French CP program. However, this reliance is mitigated by ACOSS' historically excellent access to the short-term capital markets and the large purchase of ACOSS' French CPs by French public entities. Moreover, ACOSS has also already secured €2.5 billion in short-term loans for 2013 and a €3 billion medium-term loan with Caisse des Depots et Consignations (CDC;

AA+/Negative/A-1+), one of the French state's financial arms. Ultimately, if necessary, we estimate that ACOSS has back-up liquidity of about €2.2 billion at its disposal through its €1.5 billion available cash advances from CDC, and two back-up deposit accounts at Banque de France (€200 million) and CDC (€500 million). Moreover, ACOSS' overfunding strategy allows for a further liquidity cushion.

It is very unlikely, in our opinion, that ACOSS will face liquidity stress, since its cash outflows and inflows are highly predictable. 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, notably 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 issues, 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

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

Ratings List

Ratings Affirmed

Agence Centrale des Organismes de Securite Sociale (ACOSS)

Issuer Credit Rating	--/--/A-1+
Commercial Paper	A-1+

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