MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
18 April 2019

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RATINGS

Agence Centrale Organismes Securite Sociale

Domicile	Paris, France
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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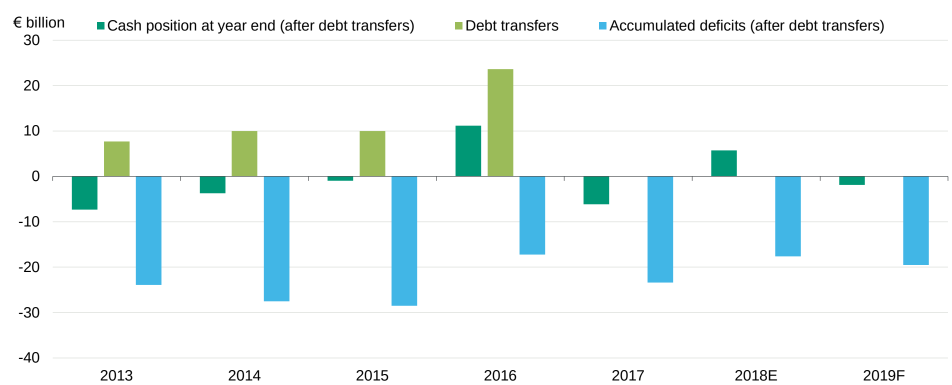
Agence Centrale Organismes Securite Sociale

Update to Credit Analysis

Summary

The credit profile of Agence Centrale des Organismes de Sécurité Sociale's (ACOSS, Aa2 positive/P-1) reflects its status as an *Etablissement Public à caractère Administratif* (EPA), implying a high degree of support and supervision from the Government of France (Aa2 positive). We do not assign a Baseline Credit Assessment to ACOSS to reflect the high level of involvement from the central government in its governance, as well as its public service role. ACOSS' legal framework limits its debt issuance to short-term paper only. In 2018, and for the first time since 2001, ACOSS posted a surplus, of €5.7 billion. The 2019 social security law provides for a €15 billion debt transfer to Caisse d'Amortissement de la Dette Sociale (CADES, Aa2 positive) which is expected to fully cover ACOSS' accumulated deficits.

Exhibit 1
ACOSS achieved a surplus in 2018, for the first time since 2001



E= Estimate; F = Forecast.
Sources: ACOSS, Moody's Investors Service

Credit strengths

» High degree of support and supervision from the central government

» Unrestricted market access and adequate cash facilities

» Strong management and strict procedures to contain risks

Credit challenges

» Cash balance sensitive to economic cycles

Rating outlook

The rating outlook for ACOSS is positive, in line with that of the French government. ACOSS' status as a public establishment of an administrative nature (EPA) entails strong supervision from and very strong links with the central government.

Factors that could lead to an upgrade

An upgrade of ACOSS' rating would require a parallel change in the sovereign's rating.

Factors that could lead to a downgrade

Any change in ACOSS' EPA status or a 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

Agence Centrale des Organismes de la Sécurite Sociale

EUR billion	2013	2014	2015	2016	2017	2018E	2019F
Cash position at YE before debt transfers of the year	-15	-13.7	-11.0	-12.3	-6	5.7	-1.9
Debt transfers to CADES	7.7	10	10.0	23.6	0	0	0
Cash position at year end after debt transfers of the year	-7.3	-3.7	-1.0	11.2	-6	5.7	-1.9
Accumulated deficits after debt transfers	-23.9	-27.5	-28.5	-17.2	-23	-17.6	-19.5

E = Estimate; F = Forecast.
Sources: ACOSS, Moody's Investors Service

Detailed credit considerations

ACOSS' credit profile, as expressed in its Aa2 positive and P-1 ratings, reflects its strong institutional, financial and operational links with the French government, as well as our assessment of a very high likelihood of extraordinary support for ACOSS from the central government should it face acute liquidity stress.

High degree of central government support and supervision

ACOSS was created in 1967 as an EPA with the specific purpose of managing the centralised cash flow of France's social security system (*sécurité sociale*). Contributions and tax receipts dedicated to social security funding, which totalled €516 billion in 2018 and are forecast to reach €529.5 billion in 2019, are transferred to ACOSS. The agency is then responsible for distributing adequate cash flow to each local or regional social security agency in charge of providing allowances and benefits (€510.3 billion in 2018; €531.4 billion forecast for 2019).

We consider ACOSS a government-related issuer (GRI). 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. The rating approach for ACOSS is the same as that for GRIs rated solely on support, as our rating methodology for GRIs (Government-Related Issuers: Rating Methodology, June 2018) describes.

ACOSS operates under the dual authority of the Ministry of Public Finance and the Ministry of Health. As the central government has ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, the agency's management and organisational structure reflect the government's influence and oversight. ACOSS' board is appointed by the central government, but it is not necessarily affected by any changes in the central government (in July 2017, ACOSS' president was re-elected by unanimous vote). There were no material changes in ACOSS' governance in 2018.

Through the social security budget law (*Loi de Financement de la Sécurité Sociale*, or LFSS), the French government sets an annual limit on the maximum short-term debt that ACOSS can issue (*plafond de ressources non permanentes*), corresponding to the projected needs of ACOSS, and an additional buffer, which ensures adequate access to liquidity for the agency. The creation in 1996 of CADES, a sinking fund to redeem French social security debt, also illustrates the central government's commitment to ACOSS' financial sustainability.

Unrestricted market access and adequate cash facilities

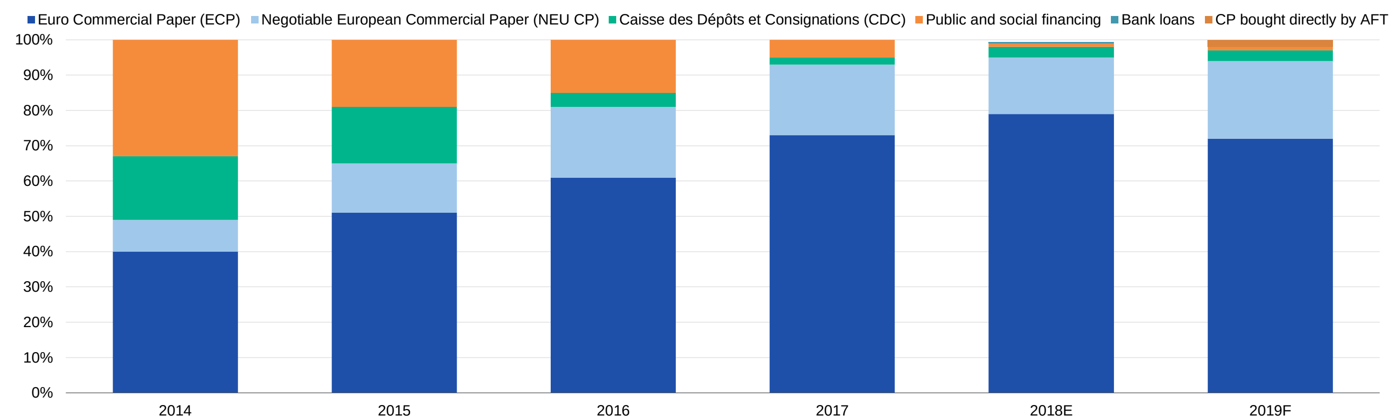
Because of increased borrowing requirements in recent years and negative money-market rates, ACOSS has increasingly turned to financial markets to raise short-term funding. In 2016, ACOSS became the second-largest issuer of euro commercial paper (ECP) globally. The agency's short-term funding programmes include (1) an ECP programme totalling €40 billion' with systematically hedged currency risk; and (2) Negotiable European Commercial Paper (NEU CP) totalling €40 billion, part of which is subscribed by the French Treasury and CADES. ACOSS' legal framework limits its debt issuance to short-term paper only.

In 2018, ACOSS issued 682 NEU CP deals for a total of €153 billion, of which 54% was issued to money markets (the remaining was placed with CADES, Caisse des Dépots et Consignations (CDC, Aa2 positive) and Agence France Tresor). The agency also issued 1253 ECP transactions totaling €148 billion, all of them issued directly to the market. The weighted average interest rate was -0.36% and -0.52% for the NEU CP and ECP programmes, respectively, in 2018, illustrating the agency's unquestioned access to markets.

ACOSS benefits from credit facilities provided by the state-owned financial institution CDC via a multiyear financial agreement, which was renewed in 2015 for four years. In addition to credit facilities of €7 billion with maturities between three and 12 months, ACOSS benefits from additional financing of €2.5 billion, with a maturity of up to seven days, used to cover cash receipts and disbursement mismatches for pension payments, and €1.5 billion in the form of an overdraft facility with a maturity of up to 24 hours. In 2017, taking into account ACOSS' access to financial markets (see Exhibit 3), CADES and French Treasury (*Agence France Trésor*) contributions, no additional financing facility was requested from CDC. We also positively note the fact that ACOSS maintains a liquidity buffer of €700 million with the central bank, *Banque de France*.

Exhibit 3

ACOSS has increasingly turned to financial markets to raise short-term funding



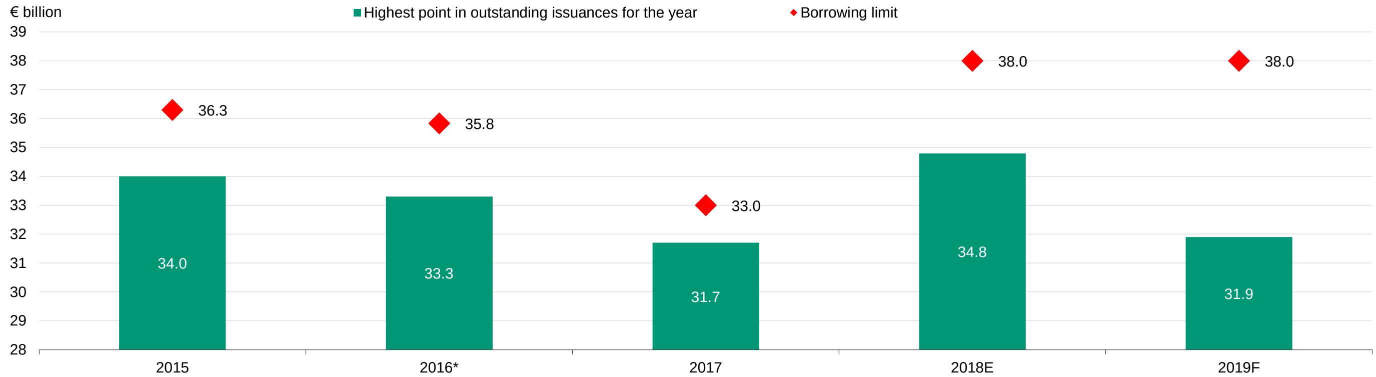
E= Estimate; F= Forecast.
Sources: ACOSS, Moody's Investors Service

Strong governance and management

ACOSS has developed strong expertise in macroeconomic forecasts, which are updated on a monthly basis and incorporate a detailed assessment of potential measures affecting the social security system. These macroeconomic forecasts are used by ACOSS to closely monitor its treasury position and forecast future treasury balances. Each month, ACOSS reviews the differences between the forecast and realised cash balances to improve its forecasting measures.

ACOSS has implemented sound debt management rules; for example, its currency risk is fully hedged and the agency carefully selects its dealers and strives to spread the risk by limiting the amount of commercial paper issuances that a single dealer can participate in. ACOSS has a conservative approach to debt management, limiting its maximum issuance outstanding to a level well below the borrowing limit imposed by law. We also positively note that ACOSS is prepared for Brexit (which could have potentially improved ECP hedging contracts).

Exhibit 4
ACOSS' outstanding issuances remain well below the legal borrowing limit



*In 2016, the borrowing limit was €40 billion for the first seven months of the year and €30 billion for the remainder; the value on the graph is a weighted average.
E=Estimate; F= Forecast.
Sources: ACOSS, Moody's Investors Service

ACOSS signs multiyear objective plans with the central government (*Convention d'objectifs et de gestion* or COG in French). The current COG spans from 2018 to 2022 and is focused on improving its service to regional social security agencies and strengthening their operations. ACOSS develops measures to limit operational risks (for instance, it runs decentralised operations several days a year) and closely monitors incidents in its network, which is reported regularly to the board.

As part of the government's treasury mutualisation strategy for social security entities, to reduce their funding costs, ACOSS can provide liquidity facilities for one to 12 months to other entities with higher funding costs, which outlines ACOSS' good performance in treasury management. Since the beginning of 2017, ACOSS has been financing 100% of *Caisse nationale de la mutualité sociale agricole's* and *Caisse autonome nationale de la sécurité sociale des mines*' cash flow needs. These liquidity facilities of one to 12 months represented an average amount of €4.0 billion in 2018.

Sensitivity of cash balances to economic cycles
ACOSS' cash flow is predictable during the year, although it is sensitive to changes in the economic cycle. The agency's treasury position has traditionally reflected the annual deficits that the healthcare and pension branches of the social security system incur.

Since 1996, debt transfers from ACOSS to CADES have occasionally improved ACOSS' cash position significantly. Over 2011-18, CADES funded the social security system's deficits on a yearly basis (limited to €10 billion per year or €62 billion over 2011-18). ACOSS transferred €6.6 billion of its deficit to CADES in 2012, €7.7 billion in 2013, €10 billion in 2014 and 2015, and €23.6 billion in 2016. The 2019 social security law modified the limit of debt that could be transferred to CADES and, between 2020 and 2022, ACOSS will transfer €15 billion in accumulated deficits to CADES. The transfers to CADES shall cover the totality of ACOSS' accumulated deficits.

Declining unemployment and rising inflation in France, leading to higher salaries and, therefore, increased social security contributions, have led to the first social security surplus since 2001, €5.7 billion in 2019. As of year-end 2018, accumulated deficits stood at €17.6 billion. We note that a change in tax collection (from quarterly to monthly) had a significant impact on the 2018 and 2019 results, with an expected deficit of €1.9 billion. Adjusting for the impact of the change in the collection calendar, the 2018 surplus would be of €2.1 billion and we would expect a 2019 surplus of €1.7 billion.

The general social security budget law has kept ACOSS' borrowing limit at €38 billion for 2019. This should enable the agency to adequately fund its deficits because it expects a high point of €31.9 billion in gross borrowings in April 2019. The gross borrowings are not expected to exceed €30 billion at any point in the rest of the year. We note that ACOSS has a solid track record in raising these large quantities in money markets.

For the first time in 2018 ACOSS's received a portion of total VAT. They collected a total of €9.5 billion corresponding to 5.59% of the VAT collected by the central government in 2018.

Rating methodology and scorecard factors

In assessing ACOSS' credit profile, we apply our Government-Related Issuers rating methodology, published in June 2018. Please see the Credit Policy page on moodys.com for a copy of this methodology.

Ratings

Exhibit 5

Category	Moody's Rating
AGENCE CENTRALE ORGANISMES SECURITE SOCIALE	
Outlook	Positive
Issuer Rating	Aa2
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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