MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
31 July 2018

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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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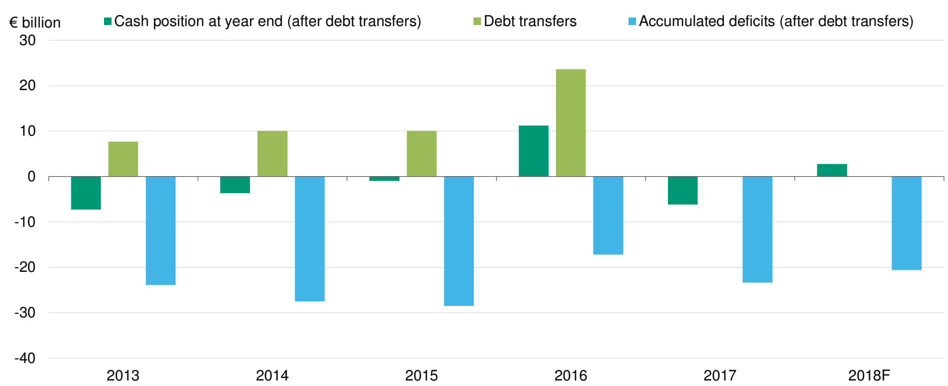
Agence Centrale Organismes Securite Sociale (France)

Update following assignment of Aa2, positive

Summary

The credit profile of Agence Centrale des Organismes de Sécurité Sociale's (ACOSS) Aa2, POS/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 because we believe the agency should be analysed as part of the central government to reflect the high level of government involvement in its governance, as well as its critical public service role. Because of economic growth in France, and despite no debt transfers to *Caisse d'Amortissement de la Dette Sociale (CADES, Aa2 positive)* in 2017 and 2018, ACOSS reduced its deficit in 2017 to €6.1 billion and is expected to post a surplus of €2.8 billion in 2018.

Exhibit 1
ACOSS to achieve a surplus in 2018 without debt transfers to CADES



F= Forecast
Source: Sources: ACOSS, Moody's Investors Service

Credit strengths

» High degree of central government support and supervision

» Unrestricted market access and adequate cash facilities

» Strong management and strict procedures to contain risks

Credit challenges

» Sensitivity of cash balances 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 (*Etablissement Public à caractère Administratif* or EPA) entails strong supervision 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 reversal of 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 Securite Sociale

EUR billion	2013	2014	2015	2016	2017
Cash position at YE before debt transfers of the year	-15.0	-13.7	-11.0	-12.3	-6.1
Debt transfers to CADES	7.7	10	10	23.6	0.0
Cash position at year end after debt transfers of the year	-7.3	-3.7	-1.0	11.2	-6.1
Accumulated deficits after debt transfers	-23.9	-27.5	-28.5	-17.2	-23.4

Source: ACOSS, Moody's Investors Service

Detailed credit considerations

On 25 July 2018, we assigned a Aa2 long-term issuer rating to ACOSS with a positive outlook. The assigning of the rating reflects ACOSS' strong institutional, financial and operational links with the central government.

The credit profile of ACOSS, as expressed in a Aa2 positive and Prime-1 rating, reflects our assessment of a very high likelihood of extraordinary support from the central government in the event ACOSS faces acute liquidity stress.

Baseline Credit Assessment

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 €498.7 billion in 2017 and are forecast to reach €514.4 billion in 2018, 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 (€504.8 billion in 2017; €511.7 billion forecast for 2018).

Moody's Public Sector Europe considers 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. Therefore, ACOSS' rating derives from the application of the approach 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 Economy and 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 change in the central government (in July 2017, ACOSS' president was re-elected by unanimous vote).

The French government ensures that ACOSS has access to liquidity facilities in line with its needs. In the social security budget law (*Loi de Financement de la Sécurité Sociale*, or LFSS), the government sets an annual limit (*plafond de ressources non permanentes*) on the maximum outstanding short-term debt that ACOSS can hold. The creation in 1996 of CADES, a sinking fund to redeem French social debt, also illustrates the central government's commitment to ACOSS' financial sustainability.

Unrestricted market access and adequate cash facilities mentioned in the LFSS

ACOSS benefits from credit facilities provided by the state-owned financial institution Caisse des Dépots et Consignations (CDC, Aa2 positive) 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 (called *tuiles* loans in French), 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 below) and CADES and French Treasury (*Agence France Trésor*) contributions, no additional financing facility was requested from CDC.

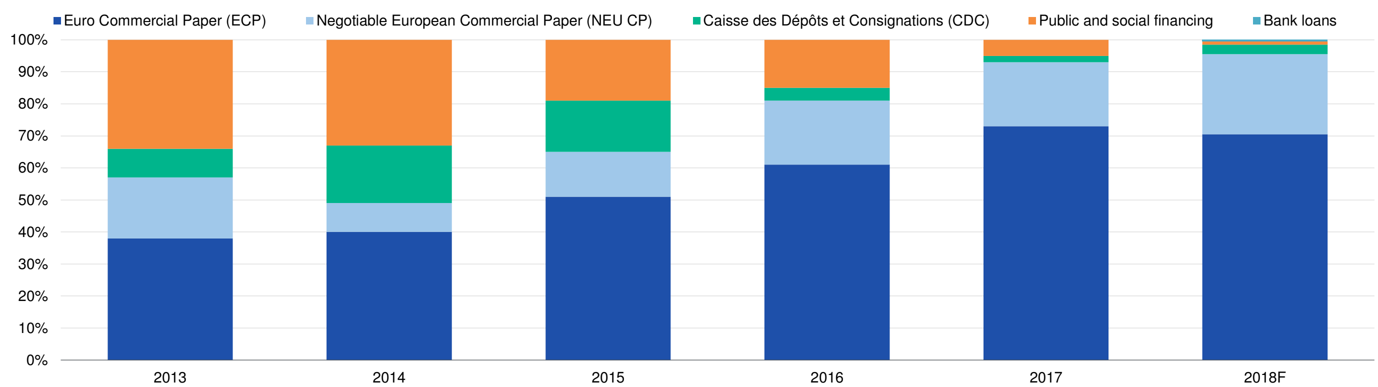
Because of increased borrowing requirements in recent years, ACOSS has increasingly turned to financial markets to raise short-term funding. In 2016, it became the second-largest issuer of euro commercial paper (ECP) globally. The agency's short-term funding programmes include (1) an ECP programme totalling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

In 2017, ACOSS issued 481 NEU CP deals for a total of €140 billion, of which 56% were issued to money markets (the remaining were placed with CADES, CDC and Agence France Tresor). The agency also issued 100 ECP transactions totaling €87.2 billion, all of them issued directly to the market.

We also positively note that ACOSS maintains a liquidity buffer of €700 million with the central bank, the *Banque de France*.

Exhibit 3

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



F= Forecast
Source: 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. Those macroeconomic forecasts are used by ACOSS to closely monitor its treasury position and forecast future treasury balances. Each month, they review the differences between the forecasted and realised cash balances to improve its forecasting measures.

ACOSS has implemented sound debt management rules; for example, the 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 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 focuses on improving their service to the regional social security agencies and strengthening the operations. ACOSS develops measures to limit operational risks (for instance, it runs decentralised operations several days a year) and closely monitors incidents on 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 one to 12 months liquidity facilities to other entities with higher funding cost, 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* (CNMSA) and *Caisse autonome nationale de la sécurité sociale des mines*' (CANSSM) cash flow needs. These liquidity facilities of one to 12 months represented an average amount of €4.0 billion in 2017.

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 has 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, which corresponds to the balance of possible reversals under the law. As a result, no debt transfer to CADES occurred in 2017 and none are expected for 2018.

Because of the positive economic cycle in France, the social security deficit for 2017 decreased to €6.1 billion. ACOSS is expected to generate a surplus of €2.8 billion by year-end 2018. By year-end 2017, ACOSS' accumulated deficits were €23.4 billion, up from €21.7 billion as of year-end 2016, while the surplus as of year-end 2018 should reduce the accumulated deficits to €20.6 billion.

The general social security budget law has set ACOSS' borrowing limit at €38 billion for 2018 (versus €33 billion for 2017). This should enable the agency to adequately fund its deficits, with a realised low point for 2018 in April of €34.8 billion in gross borrowings. The gross borrowings are not expected to exceed €30 billion at any point in the rest of the year.

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 4

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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