S&P Global
Ratings

RatingsDirect®

Agence Centrale des Organismes de Securite Sociale (ACOSS)

Primary Credit Analyst:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@spglobal.com

Secondary Contact:
Youssef Ait Benasser, Paris +33144206761; youssef.benasser@spglobal.com

Table Of Contents

Agence Centrale des Organismes de Securite Sociale (ACOSS)

Major Rating Factors

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

Strengths:

- Almost certain extraordinary financial support from the French government.
- Access to emergency short-term funding from the French Treasury Agency.
- Sophisticated cash management, with clear and efficient policies and procedures.

Weaknesses:

- Absence of systematic and full transfer of accumulated deficits to the dedicated debt amortization fund.

Rationale

S&P Global Ratings equalizes its rating on Agence Centrale des Organismes de Securite Sociale (ACOSS) with our short-term sovereign credit rating on France (unsolicited AA/Stable/A-1+). This is because we consider 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.

We base our rating approach on our view of ACOSS as a government-related entity (GRE) that has a critical role for and integral link with the French government. Moreover, we do not see the likelihood of government support as subject to transition risk. Furthermore, we consider that the French government's limited level of contingent liabilities does not constrain its capacity and willingness to support ACOSS in a timely manner if the agency is in financial distress. More generally, we don't consider the government's general propensity to support the GRE sector to be doubtful.

France's constitutional laws, set in 1945, safeguard the French population's right to receive social protection. We consequently consider ACOSS' role for the French government to be critical and that it will remain so, since it primarily consists of supervising and centralizing the collection of contributions to France's general social security plan and ensuring their timely redistribution. These social transfers include more than one-half of health, work accident, and illness benefits; more than one-third of old age pensions; and the remainder comprising family benefits. These transfers affect most of the French population, and their timely payment, especially of pensions, is crucial. General plan expenditures will likely account for about 70% of France's total social security expenditures and about 15% of GDP in 2017. We believe that a default of ACOSS, if one were to occur, would have a major reputational impact on the central government.

Furthermore, as part of the French social security system, ACOSS was set up in 1967 as a state public administrative agency (Établissement Public à Caractère Administratif; EPA). Owing to this status, we view the government as ultimately responsible for ACOSS' solvency. 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. We don't anticipate any change in ACOSS' legal status.

The Ministry of Social Affairs and Health and the Ministry of Economy and Finance provide strong and broad state supervision of ACOSS on a daily basis. 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. Under the current contract (which runs until end-2017) ACOSS has launched and implemented several ambitious projects to improve its operational efficiency.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws (Loi de Financement de la Sécurité Sociale; LFSS). For 2017, ACOSS' external funding ceiling is set at €33 billion compared with €30 billion from August 2016 to December 2016, €40 billion from January to July 2016, and €36.3 billion in 2015. Social security accounts are currently improving, and we expect negative internal cash flows for ACOSS will decrease to €4.4 billion in 2017, compared with negative €12.4 billion in 2016. Given this improvement, the central government did not plan any transfers to Caisse d'Amortissement de la Dette Sociale (CADES; the social security debt amortization fund which redeems France's social security debt) in 2017, following €23.6 billion in social security debt transfers from ACOSS to CADES in 2016. Transfers to CADES attest to the ongoing financial support the state extends through CADES.

Liquidity

ACOSS' cash management is sophisticated, with clear and efficient policies and procedures. It is guided by two main objectives: security and predictability. ACOSS has significantly increased the predictability of its cash inflows in past years by securing hundreds of agreements with counterparties that specify the exact day of payment. ACOSS has also increased the monitoring of its cash outflows through information technology systems that set the dates for drawings, putting an end to the historical liquidity risk related to drawing rights granted to social-benefit paying funds on ACOSS' operational account. Moreover, the development of a system of netting cash flows with partners has limited intraday liquidity risk. Consequently, ACOSS benefits from highly predictable cash flow planning with only limited deviations from actual cash flow.

ACOSS' funding strategy for 2017 is in line with 2016. It prioritizes the diversification of liquidity sources through three main channels: cash pooling with social security entities, short-term funding from state agencies (chiefly Agence France Trésor and CADES) and direct issuance of short-term notes on the financial market via a French commercial paper (CP) or NEU CP, and euro CP programs totaling €50 billion. In 2017, it will continue to create a liquidity base with its euro CP program (average issuance maturity of 65 days in 2016) and adjusting its liquidity needs with its NEU CP program (average issuance maturity of 16 days in 2016). As in 2016, ACOSS has decided to do without medium-term funding from the Caisse des Dépôts et Consignations (CDC, the French government's financial arm), given its relatively stable funding needs and the still favorable interest-rate environment. However, CDC is committed to buying up to €2.5 billion of NEU CP per month and provides ACOSS for a liquidity line of €1.2 billion. ACOSS also has two back-up deposit accounts at Banque de France (€200 million) and CDC (€500 million).

It is very unlikely, in our opinion, that ACOSS will face liquidity stress, given its tight management of cash flows and its back-up liquidity cushions. Moreover, ACOSS secures its short-term funding well 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 central government, either through purchases of CP from the French treasury (AFT), as allowed for EPAs under France's finance law, or through funding from the state's public debt fund, Caisse de la Dette Publique. We also believe that ACOSS would anticipate well in advance any need for--and swiftly obtain--a further extension of its annual borrowing ceiling, as was the case in July 2009.

A Critical Role For France: ACOSS Is The Cornerstone Of The French Welfare State

The agency's social security mission is enshrined in the constitution and concerns the majority of the French population

The French social security system was created by decree in 1945 and "provides for citizens the guarantee that under any circumstances they will have the necessary means to support themselves as well as their family in decent conditions." This mission has been enshrined in France's constitutional laws since 1946.

The Social Security System (SSS) consists of various plans, with compulsory affiliation for all employees and employers. It includes the General Plan (Régime Général), the agricultural plan (CCMSA), the self-employed workers plan (RSI), and various special plans such as that for mining industries (CANSSM) or electricity and gas industries (CNIEG).

ACOSS is responsible for paying, through provider entities, pensions, family, and health benefits, with the exception of unemployment benefits, which are managed by Unedic. These transfers concern the majority of the French people, and their timely payment, especially of pensions, is crucial.

ACOSS is primarily responsible for managing the General Plan's cash flows, collecting social security contributions, and redistributing social benefits

ACOSS' mission is legally defined. The Social Security Code states in article L 225-1 that ACOSS alone is responsible for collecting, redistributing, centralizing, and managing the cash flows for the three funds in charge of the General Plan's funds. General plan expenditures will likely account for about 70% of France's total social security expenditures and about 15% of GDP in 2017.

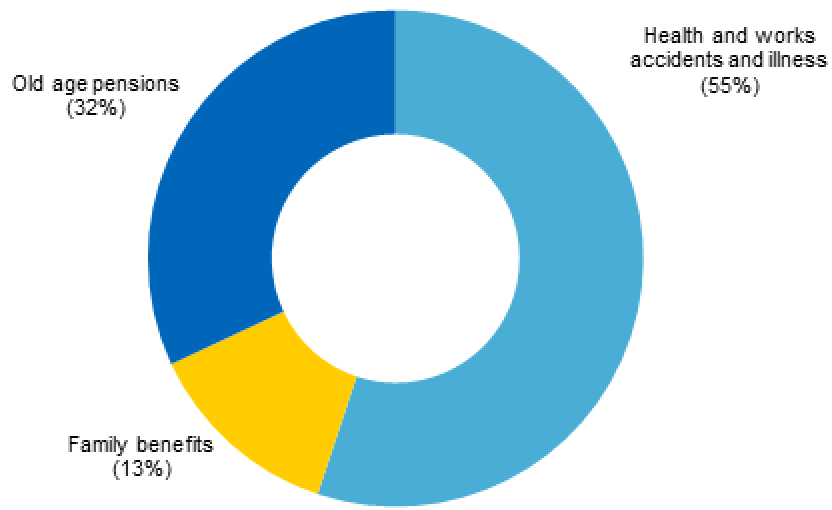
More explicitly, ACOSS is in charge of:

- Collecting the social security contributions and taxes paid by all employees and employers to the General Plan, mainly through a network of 22 regional social security contribution collection offices (URSSAF);
- Allocating the proceeds to three EPA funds in charge of redistributing three main types of social benefits: the Family Fund (CNAF); the Health Insurance Fund (CNAM), which manages health and work accidents and illness; and the Employees' Retirement Fund (CNAV); and
- Managing the SSS centralized account and cash flows, including cash placement, short-term advances, and

short-term debt issuance.

Chart 1

General Plan Expenditure Breakdown By Fund In 2016



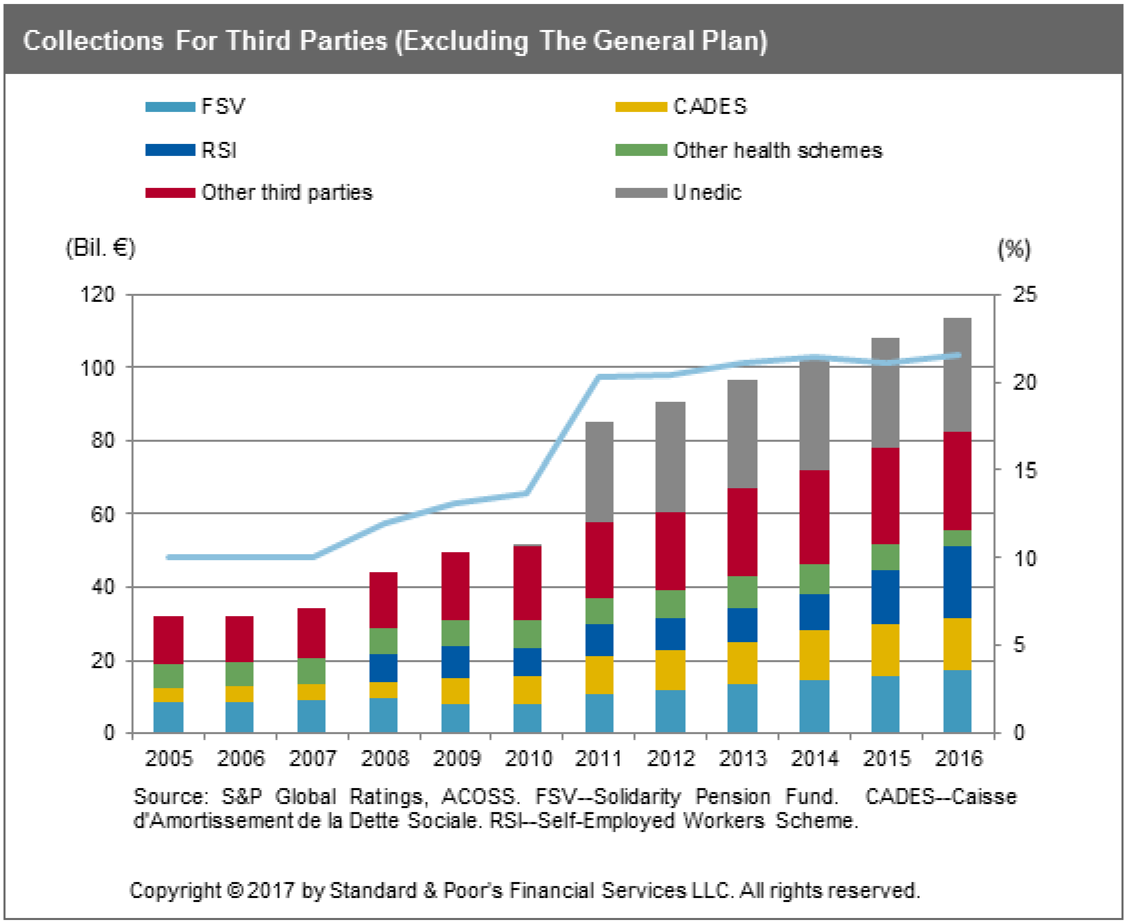
Source: Social security funding law for 2017.

Large responsibilities as treasurer for the entire SSS

ACOSS and its network of local URSSAF offices have extended their roles beyond the SSS by collecting some contributions and revenues on behalf of third parties. The main third parties are CADES, FSV, the RSI, and Unedic. Contributions cashed in for third parties were €113 billion in 2016, or 22% of ACOSS' total cash inflows, against 10% 10 years ago. Main third party was Unedic with about €31 billion in 2016.

FSV cash gaps are held by ACOSS, as the solidarity pension fund is not authorized to borrow, nor does it currently benefit from cash reserves. As a consequence, CNAV pays the part of FSV's benefits that exceeds its own revenues. This means FSV can be in debt to CNAV, and ultimately to ACOSS.

Chart 2



Integral Link With France: ACOSS Is Closely Supervised By The Sovereign

ACOSS' status, mission, and funding are precisely framed by law, integrally linking it to France

ACOSS was established in 1967 as an EPA and is not subject to bankruptcy proceedings. In our view, if ACOSS were to be dissolved, all its assets and liabilities would be taken over by the state.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its LFSS.

For 2017, ACOSS' external funding ceiling is set at €33 billion compared with €30 billion from August 2016 to December 2016, €40 billion from January to July 2016, and €36.3 billion in 2015.

ACOSS' ability to issue CP is clearly stated in the Monetary and Financial Code (Article L 213-3). Given the large volume of social benefits payments, default by ACOSS on its debt repayments would quickly lead to non-payment of pensions, health benefits, and family benefits. Consequently, ACOSS' permanent access to short-term funding is intrinsic to its role as the sole SSS treasurer.

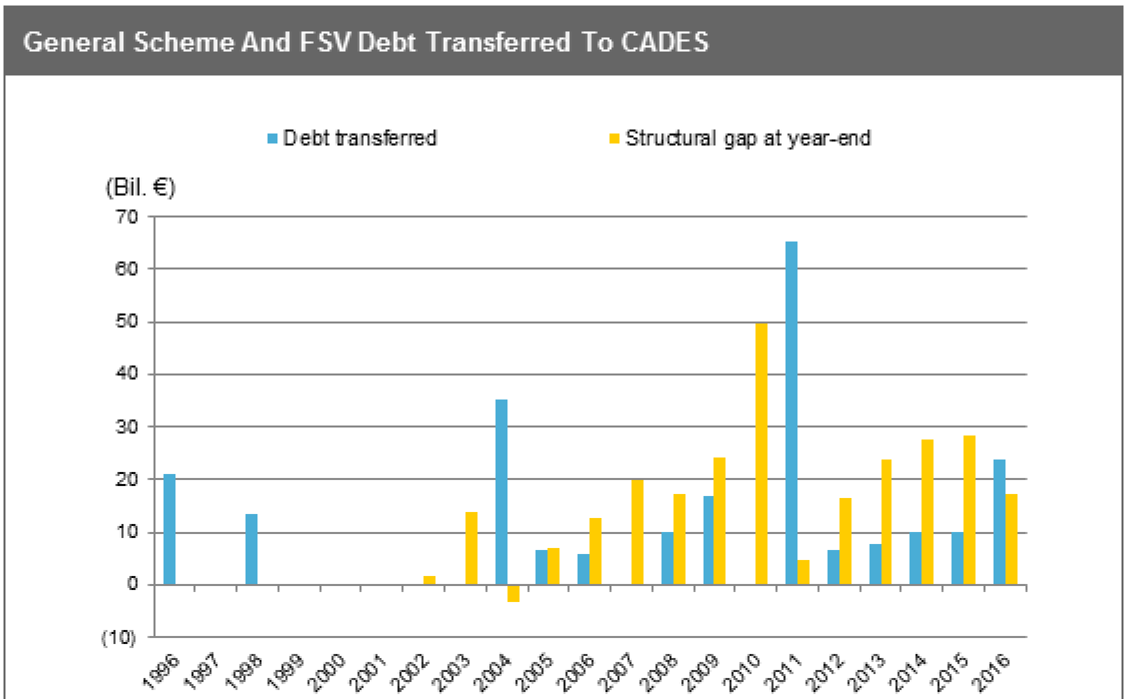
ACOSS' multiyear debt transfers to CADES testify to the ongoing financial support of the state

ACOSS' and CADES' missions are complementary, with ACOSS in charge of annual cash flows and CADES in charge of refinancing and amortizing accumulated SSS deficits.

Since 1996, CADES has received about €260 billion of General Plan and FSV debt. In a rare exception, a significant amount of accumulated deficits as of Dec. 31, 2010—-€49.5 billion--remained on ACOSS' books.

The 2011 LFSS provided for massive debt transfers from ACOSS to CADES, which we expect will be implemented until 2019. The maximum debt transfer amount, established at €123 billion, was reached in 2016. In the future, the LFSS would need to be amended again to enable further debt transfers to CADES. Social security accounts are currently improving, and we expect negative internal cash flows for ACOSS will decrease to €4.4 billion in 2017, compared with negative €12.4 billion in 2016. Given this improvement, the central government did not plan any transfers to CADES in 2017.

Chart 3



Source: Standard & Poor's. FSV--Retirement solidarity fund. CADES--Caisse d'Amortissement de la Dette Sociale (social security accounts commission). p--Projected.

State supervision of ACOSS is strong through the board, with multi-year programs and frequent reporting

ACOSS is under strong state supervision, through the Ministry of Social Affairs and Health and the Ministry of Economy and Finance. The director of ACOSS is appointed by decree and reports directly to the ministries. The director's main mandate is to strictly implement the state's decisions and policies on the SSS. ACOSS' board is made up of 26 employers and social security beneficiaries' representatives and four state representatives. Its decision-making capacity is, however, limited, and enforceable only if the supervisory authorities do not oppose it.

Since 1996, ACOSS has signed multiyear contracts with the state. Main objectives set to ACOSS were to improve collection services, local office network organization, information systems, and liquidity management.

ACOSS is subject to monthly reporting and meetings with the Ministry of Social Affairs and Health, although interactions are daily in practice, especially regarding cash flows and liquidity.

In addition, the French Court of Audit (Cour des Comptes) is responsible for certifying ACOSS' accounts and provides frequent reports on France's social security plans, including their funding.

Since 2013, ACOSS must provide an annual report on the management of its liquidity risk to the French Parliament.

CDC remains a key counterparty, despite the diversification of ACOSS' funding sources since 2006

As stated by decree, ACOSS centralizes the bulk of its operating cash flows within a single CDC account. Accordingly, ACOSS' counterparty risk is very limited. To manage its excess cash, ACOSS has maintained a deposit account at the Banque de France since 2011. It can also access repurchase agreements, although such transactions are restricted to state and CADES assets. The back office for such repurchase agreement transactions is operated by CDC.

ACOSS' funding depends partly on CDC, although to a much lesser extent than in the past, including:

- Up to one-third of the funding ceiling in the annual Bill for SSS and no more than €7 billion in 2017 and 2018 (down from €10 billion in 2016). This can be extended by CDC through three- to 12-month loans. The amounts and tenors of these loans are determined in the year before they are granted;
- Up to €2.5 billion in short-term loans with tenors to be determined in the previous year through the commitment by CDC to buy NEU CPs issued by ACOSS. ACOSS can obtain 12 of these short-term loans per year and their maturity is up to eight working days; and
- Up to €1.2 billion in liquidity lines.

In 2016 and 2017, ACOSS decided to do without medium-term funding from CDC, given its decreasing funding needs and the favorable interest rate environment. In contrast, ACOSS benefited from a CDC €6 billion medium-term loan in 2015, which was issued between March and July. Nevertheless, given the close link between the state and CDC, we would expect such involvement to strengthen in the event of need.

State Support Would Be Almost Certain In Case Of Need

The EPA status entitles ACOSS to receive emergency liquidity support from the state, which could be implemented by AFT through purchase of ACOSS CP, as allowed under French annual finance laws. Besides, we consider that, in the event of need, the CDP public debt fund could also intervene. AFT's intervention would be timely, should ACOSS fall short of funding. 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 in July 2009.

The track record of the state's ongoing and extraordinary support is favorable. ACOSS has had long-standing and unquestioned support from AFT, as testified in 2010, when funding needs proved to be very high. At that time, the Budget Ministry confirmed that "the state would support ACOSS to find the resources needed to fund the General Plan." This resulted in AFT technically supporting ACOSS in implementing and managing its euro CP program, as well as purchasing up to €5 billion of the agency's French CP.

Operations: Cash Inflows Mainly Correlate To The Economic Cycle, Outflows Reflect Structural Features

Cash inflows closely correlate to GDP growth with cut in social contributions limiting inflow progression

More than 80% of General Plan revenues come from social contributions and taxes, which are closely linked to private payroll growth, which is in turn strongly correlated to GDP changes, with some lag effects. Total cash inflows (excluding inflows on behalf of Unedic) increased by 1.3% in 2016 against 1.6% in 2015, 2.2% in 2014, and an average of more than 5% per year in 2006-2013, compared with nominal GDP growth of 2% in 2016, 1.9% in 2015, 1.2% in 2014, and 2.3% per year, on average, in 2006-2013. Despite the acceleration of nominal GDP growth from 2014, cash inflows growth reduced. This was because of the gradual implementation in 2015 and 2016 of the measures decided by the central government under the 2014 Responsibility Pact, including the decrease in the rates of some family contributions. In 2017, we expect cash inflows growth to accelerate in line with greater nominal GDP growth.

Cash outflows depend on structural characteristics and national policies

The evolution of General Plan expenditures depends on structural features, such as demographics and national policies; expenditures are moderately exposed to the economic cycle.

Pension expenditures growth has been contained since the 2010 National Reform due to several increases in the legal retirement age; the freeze in pensions; and contained inflation. National policies also strongly influence health insurance expenditures, because the state defines, in particular, the level of reimbursement of medicines (with an increasing incentive to use generic drugs) and the prices of medical services as well as family benefits expenditures. For the latter, this was particularly the case in 2016 with the introduction of a new compensation plan (prime d'activité), which triggered an increase of family benefits payments growth to 3.3% versus 2.3% in 2015.

Sophisticated Liquidity Management With Clear And Efficient Policies And Procedures

We consider that ACOSS has clearly identified the main liquidity risks it faces and has implemented clear and efficient policies and procedures to minimize them. Its liquidity management is guided by two main objectives: security and predictability.

During the last years, ACOSS has strongly improved several aspects of its liquidity management, including the diversification of its funding sources, the monitoring of its cash outflows through reducing drawings demand (ending historical liquidity risk related to an automatic "drawing right" on its operation account granted to social benefit paying funds), and the optimization of its cash inflows. ACOSS covers social security cash gaps and deficits with short-term funding only, as enshrined in the law.

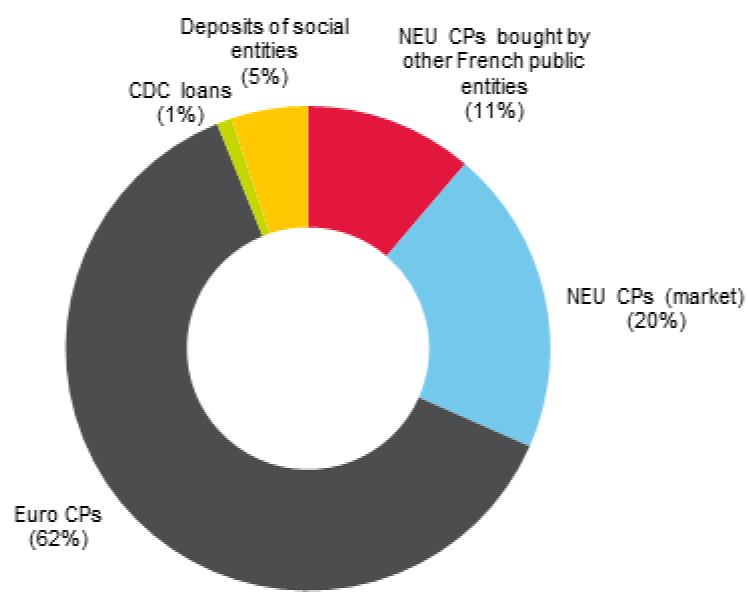
The diversification of funding since 2006 has supported the securitization of funding at a contained cost.

In 2016, market funding has significantly increased and accounted for 82% of ACOSS' external funding versus 65% in 2015 mainly through the euro CP program. ACOSS has historically had excellent access to the short-term capital markets, supported by the eligibility of its paper for European Central Bank (ECB) repurchase operations. In particular, ACOSS paper has been potentially eligible for the ECB public sector purchase program since March 2015, as part of the extended purchase program announced in January 2015. Nonetheless, given that only long-term paper is currently eligible for this program, the ECB has not yet purchased ACOSS paper.

This financing diversification, in a context of high liquidity in the capital market, has enabled a continued reduction in the average interest rate to a negative 0.46% in 2016 from a negative 0.06% in 2015 and a positive 3.86% in 2008. We expect ACOSS to continue to benefit on average from negative interest rates in 2017.

Chart 4

ACOSS Average Short-Term Funding Breakdown In 2015



Source: Standard & Poor's, ACOSS. CP--Commerical paper. CDC--Caisse des Dépôts et Consignation.

A prudent liquidity management that limits refinancing risk

ACOSS' funding strategy for 2017 is in line with 2016. It prioritizes the diversification of liquidity sources through three main channels: cash pooling with social security entities, short-term funding from state agencies (chiefly AFT and CADES) and direct issuance of short-term notes on the financial market via a its NEU CP and euro CP programs totaling €50 billion. In February 2016, ACOSS took over the full management of its euro CP program, created in 2010, from AFT. The complete internalization of the euro CP program has not generated any discontinuity and ACOSS was able to issue largely at a low cost. Moreover, this internalization allows ACOSS to better coordinate the use of this program with its NEU CP program.

To mitigate refinancing exposure, ACOSS' strategy aims to issue CP before ACOSS needs the actual funding, to overissue to secure its liquidity, and to maintain the average maturity of its CP at two-to-three months. ACOSS uses its euro CP program (average issuance maturity of 65 days in 2016) to ensure a funding base and its NEU CP program to adjust its short-term funding needs (average issuance maturity of 16 days in 2016).

ACOSS' overfunding strategy allows for a further liquidity cushion. Nevertheless, if necessary, ACOSS has back-up liquidity lines with CDC for €1.2 billion as well as two back-up deposit accounts at Banque de France (€200 million) and CDC (€500 million).

Moreover, we consider that some ACOSS payments could be deferred for a short period if necessary. We would expect any deferral to apply to health benefits, which account for about one-half of ACOSS' expenditures, but not to pension payments (which represent about one-third of total expenditures).

As a last resort, as mentioned above, ACOSS would have prompt access to emergency funding from the AFT, either through purchases of CP, as allowed for EPAs under France's finance law, or through funding from the state's public debt fund, Caisse de la Dette Publique.

Table 1

ACOSS Cash Flow Statement

	--Year-ended Dec. 31--										
(Bil. €)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Cash inflows from operating activities											
Local offices network collections	227.4	236.8	254.0	257.8	263.7	301.6	313.4	325.4	332.5	337.7	341.9
Other revenues	89.7	94.4	105.7	102.0	106.3	117.5	127.2	133.2	143.9	151.1	144.1
Total	317.1	331.2	359.7	359.8	370.0	419.0	440.6	458.6	476.4	488.8	486.0
Cash outflows from operating activities											
Health insurance and AT-MP	144.2	151.2	157.9	164.6	168.6	173.2	176.4	181.0	186.0	189.6	191.5
Old age pension	74.2	79.0	83.2	87.2	90.9	94.7	98.9	101.8	104.0	106.3	107.9
Family benefits	56.2	57.2	58.7	62.7	63.2	65.2	67.8	70.5	72.7	74.4	76.8
Administrative costs	6.5	7.3	8.4	8.7	9.2	9.4	9.7	9.7	7.3	3.5	3.3
Other expenditure (including third-parties)	47.4	49.0	58.7	60.4	63.4	97.0	106.3	110.5	120.0	126.0	118.8
Total	328.5	343.7	366.9	383.6	395.3	439.5	459.2	473.6	490.1	499.8	498.4
Cash flow from operating activities	(11.4)	(12.5)	(7.2)	(23.8)	(25.4)	(20.5)	(18.6)	(14.9)	(13.7)	(11.0)	(12.4)
Previous deficit/surplus at year end	(6.9)	(12.6)	(20.1)	(17.3)	(24.1)	(49.5)	(4.7)	(16.6)	(23.83)	(27.5)	(28.5)
Debt transferred to the State	0.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt transferred to CADES	5.7	(0.1)	10.0	17.0	0.0	65.3	6.7	7.7	10.0	10.0	23.6
Deficit/surplus at year-end	(12.6)	(20.1)	(17.3)	(24.1)	(49.5)	(4.7)	(16.6)	(23.8)	(27.5)	(28.5)	(17.3)

Table 1

ACOSS Cash Flow Statement (cont.)											
	--Year-ended Dec. 31--										
(Bil. €)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cash inflows from financing activities											
Commercial paper	0.0	8.6	11.2	9.6	29.3	4.2	16.9	20.5	17.7	22.7	20.4
CDC advances and loans	12.7	11.5	6.3	14.5	20.0	1.4	0.0	3.0	4.5	4.6	0.0
Other	0.0	0.0	0.0	0.0	0.9	0.3	2.1	2.2	2.6	1.2	1.1

Sources: S&P Global Ratings, ACOSS.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Governments - Sovereigns: Sovereigns And Equalized GREs Commercial Paper Rating Methodology - March 29, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable - April 07, 2017

Ratings Detail (As Of May 23, 2017)	
Agence Centrale des Organismes de Securite Sociale (ACOSS)	
Issuer Credit Rating	--/--/A-1+
Commercial Paper	A-1+
Issuer Credit Ratings History	
15-Jun-2010	--/--/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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