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Research Update:

French Social Security Agency ACOSS Assigned 'AA' Long-Term Rating; Outlook Stable; 'A-1+' Short-Term Rating Affirmed

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Overview

- We think Agence Centrale des Organismes de Sécurité Sociale (ACOSS) plays a critical role for the French government in collecting and redistributing France's general scheme social security contributions and closing cash flow gaps through short-term funding only, excluding any borrowing of more than one year as per law.
- ACOSS' status as a state public agency implies strong state supervision and support, and therefore an integral link between ACOSS and the central government, in our opinion.
- In our view, there is an almost certain likelihood that the French government would provide timely and sufficient extraordinary support to ACOSS if needed.
- Consequently, we are assigning our 'AA' long-term issuer credit rating to ACOSS and affirming our 'A-1+' short-term issuer credit rating.
- The stable outlook reflects that on France.

Rating Action

On April 4, 2018, S&P Global Ratings assigned its 'AA' long-term issuer credit rating to France's central social security agency, Agence Centrale des Organismes de Sécurité Sociale (ACOSS). The outlook is stable. We also affirmed our 'A-1+' short-term issuer credit rating on ACOSS.

At the same time, we affirmed our 'A-1+' issue ratings on ACOSS' €40 billion French commercial paper (CP) program and €40 billion Euro CP program.

Rationale

We equalize our rating on ACOSS with those on France (unsolicited, AA/Stable/A-1+) because, based on our view of ACOSS' critical role for and integral link with the French government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to ACOSS in the event of financial distress.

Moreover, we do not see the likelihood of government support as subject to transition risk. As a result, we expect that the ratings and outlook on ACOSS will move in line with those on France. 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 government-related entity (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 will remain critical. ACOSS' role primarily consists of managing France's social security general scheme cash flows by supervising and centralizing the collection of contributions, ensuring the timely redistribution of social benefits and closing cash flow gaps through short-term funding only. Subsequently, Caisse d'Amortissement de la Dette Sociale (CADES; the social security debt amortization fund, which redeems France's social security debt) is in charge of refinancing and amortizing accumulated Social Security System (SSS) deficits. This explains why ACOSS focuses only on short-term funding, excluding any long-term borrowings (more than one year).

Social transfers comprise more than one-half of health, work accident, and illness benefits; more than one-third old age pensions; and the rest is family benefits. These transfers benefit the majority of French people and their timely payment, especially of pensions, is crucial. General scheme expenditures accounted for about 70% of France's total social security expenditure and about 16% of GDP in 2016. We also believe a default of the entity would significantly hit the central government's reputation.

As part of the French SSS, 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. The agency's legal status, mission, and funding are precisely framed by law, which, in our opinion, entails an integral link between ACOSS and the French government. We don't anticipate any change in ACOSS' legal status.

The Ministry of Solidarity and Health and the Ministry of Economy and Finance provide strong and broad state supervision of ACOSS on a daily basis. ACOSS' general director is appointed by decree and reports directly to the ministries. The general director's main mandate is to strictly implement the central government's decisions and policies on the SSS. Since 1996, ACOSS has signed multiyear contracts with the government laying out its objectives. We expect ACOSS and the central government to sign a new contract in the next months with a special focus on digital transformation and the reinforcement of the service to SSS contributors.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws. For 2018, ACOSS' external funding ceiling is set at €38 billion, compared with €33 billion in 2017. Social security accounts are continuing to improve and we expect ACOSS' annual cash balance change to be positive this year (at more €1 billion), for the first time since 2001, which could slightly reduce external funding needs in the coming years. Given these continuous improvements, the central government did not plan any debt transfers to CADES in either 2017 or 2018, following €23.6 billion social security debt transfers from ACOSS to CADES in 2016. Past transfers to CADES also testify to the ongoing financial support extended by the state 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 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 continuous development of a system of netting cash flows with partners has limited intraday liquidity risk. Consequently, ACOSS benefits from a highly predictable cash flow planning with very limited deviations compared with actual cash flow.

ACOSS' funding strategy for 2018 is in line with 2017. 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 Tresor and CADES); and direct issuance of only short-term notes on the financial market via a French CP (NEU CP) and Euro CP programs of €40 billion each, as ACOSS is prohibited by law from issuing long-term debt. Regarding direct issuance on the financial market, ACOSS also aims to continue enlarging its investor base. In 2018, ACOSS will continue to create a liquidity base with its Euro CP program (average issuance maturity of 91 days in 2017) and adjusting its liquidity needs with its NEU CP program (average issuance maturity of 16 days in 2017). As in 2017, ACOSS has decided to do without medium-term funding from the Caisse des Dépôts et Consignations (CDC; a public-sector financial institution mandated with conducting specific public missions), given its relatively stable funding needs and the still favorable interest rate environment. However, CDC is committed in 2018 to buy up to €4.5 billion of NEU CP per month and provides ACOSS a liquidity line of €1.2 billion. ACOSS also has two back-up deposit accounts at Banque de France (currently €700 million) and CDC (currently not used).

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 French treasury, 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. 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.

Outlook

The stable outlook on ACOSS reflects our stable outlook on France. We believe that ACOSS will retain its critical role for and integral link with France. We therefore expect the ratings on ACOSS to move in line with those on the sovereign.

We could lower our ratings on ACOSS following a similar rating action on France. We could also lower the ratings if we believe that ACOSS no longer has an integral link with the government, for example, if ACOSS were to lose its EPA status or if its role were to diminish. However, we currently view these developments as very unlikely.

Conversely, we could raise the long-term rating if France's credit quality were to improve and the likelihood of support for ACOSS remained almost certain.

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
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable - October 06, 2017

Ratings List

	Rating	
	To	From
Agence Centrale des Organismes de Securite Sociale (ACOSS)		
Issuer Credit Rating		
Foreign and Local Currency	AA/Stable/A-1+	--/--/A-1+
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.