

Global Credit Research - 08 Jan 2014

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## Ratings

<b>Category</b>	<b>Moody's Rating</b>
Outlook	No Outlook
Commercial Paper -Dom Curr	P-1

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## Key Indicators

### Agence Centrale des Organismes de Sécurité Soc.

EUR billion	2007	2008	2009	2010	2011	2012
Cash position at year end before debt transfers of the year	-12.6	-7.2	-23.8	-25.4	-20.5	-18.6
Debt transfers	5.1	10	17	0	65.3	6.6
of which transfer to CADES	0	10	17	0	65.3	6.6
of which transfer to central government	5.1	0	0	0	0	0
Accumulated deficits after debt transfers	-20.1	-17.3	-24.1	-49.5	-4.7	-16.6

## Opinion

### SUMMARY RATING RATIONALE

Moody's assigns a Prime-1 short-term rating to the Agence Centrale des Organismes de Sécurité Sociale (ACOSS), which reflects its status as an établissement public administratif (EPA), implying a high degree of support and supervision from the national government.

In April 2011, Moody's removed the baseline credit assessment (BCA) of ACOSS, along with that of three other French government-related issuers (GRIs). The rating agency concluded that these entities should be analysed as part of the central government in order to reflect the high level of government involvement in their operations and governance, as well as their critical role in the development, implementation and financing of public services.

### Credit Strengths

ACOSS's credit strengths include:

- High degree of central government support and supervision derived from its EPA status
- Good predictability of short-term cash flows, thanks to the implementation of policies aimed at reducing technical risks
- Adequacy of cash facilities authorised by the French general security system budget law (LFSS)
- Multi-year financial agreements with state-owned financial institution Caisse des Dépôts et Consignations (CDC)
- Restricted market access is very unlikely

## Credit Challenges

ACOSS's credit challenges include:

- Sensitivity of cash balances to economic cycles and political decisions in the medium and long term
- Transfer of further deficits to Caisse d'Amortissement de la Dette Sociale (CADES) are limited by law and are politically sensitive

## Rating Outlook

The rating outlook is stable.

## What Could Change the Rating - Down

Any change in ACOSS's EPA status or any 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.

## Issuer Profile

ACOSS was created in 1967 as an EPA with the specific purpose of managing the centralised cash flows of France's social security system. Contributions and tax receipts dedicated to social security funding (totalling EUR440.8 billion in 2012) are transferred to ACOSS, who is then responsible for transferring adequate cash flows to each local social security agency in charge of providing allowances and benefits (EUR459.3 billion in 2012). Given that social security expenses have traditionally exceeded contributions, ACOSS has historically recorded deficits, with the total being reduced on several occasions through transfers to CADES - an administrative agency whose sole purpose is to assume and redeem debt arising from ACOSS.

## DETAILED RATING CONSIDERATIONS

Moody's considers ACOSS to be a government-related issuer. 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. As such, ACOSS's rating derives from the application of a credit substitution approach, as described in Moody's rating methodology for government-related issuers entitled "Government-Related Issuers: Methodology Update" published in July 2010.

### Institutional framework

ACOSS operates under the dual authority of the Ministry of Economy and Finance and the Ministry of Health. Moreover, the state is ultimately responsible for the solvency of ACOSS, preventing any court-ordered reorganisation or liquidation.

The commitment of the French government to ensuring the financial sustainability of ACOSS ensures access to liquidity facilities that is in line with its requirements. This includes (i) a credit facility provided by the Caisse des Dépôts et Consignations (CDC, a major state-owned financial institution, rated Aa1/Prime-1) totalling EUR5 billion; (ii) a treasury notes programme (billets de trésorerie) of EUR25 billion, part of it having been subscribed by the French treasury and CADES in 2012; and (iii) a Euro Commercial Paper programme sized at EUR20 billion, whose currency risk is hedged. Moreover, the central government can decide to transfer ACOSS's additional deficits to CADES.

### Financial Position, Indebtedness and liquidity

The treasury position of ACOSS has traditionally reflected the annual deficits incurred by the healthcare and pension branches of the social security system. At year-end 2010, ACOSS recorded an unprecedented accumulated deficit of EUR49.5 billion (of which EUR25.4 billion was derived solely in 2010). Since 1996, debt transfers from ACOSS to CADES occasionally resulted in significant improvements in ACOSS's cash position. This was the case in 2011, when EUR65.3 billion of debt were transferred to CADES, and ACOSS reported an accumulated deficit of EUR4.7 billion. At year-end 2012, after the EUR6.6 billion debt transfer to CADES, ACOSS's accumulated deficit stood at EUR16.6 billion. By the end of 2013, ACOSS is expected to report an accumulated deficit of about EUR26-27 billion. In 2014, the general social security budget law sets ACOSS's borrowing limit at EUR34.5 billion, which should enable ACOSS to fund its estimated deficit of EUR32 billion.

The deficit transferred to CADES in 2011 consisted of the accumulated deficits of the social security system for

2009, 2010 and 2011 (EUR65.3 billion). Since 2012 and until 2018, CADES funds the deficits of the pension system on a yearly basis (limited to EUR10 billion per year and EUR62 billion over the 2011-2018 period). This amount represented EUR6.6 billion in 2012 and EUR6.5 billion in 2013. The general social security budget law for 2014 also allows ACOSS to include the deficits of the Family and Healthcare branches of the social security system in the amounts transferred to CADES (within the aforementioned limits of EUR10 billion and EUR62 billion), a credit positive for ACOSS.

ACOSS diversified its short-term debt structure in order to facilitate the financing of the unprecedented deficit of EUR49.5 billion it recorded at YE2010. Its diversified set of financing instruments includes, in addition to the credit facilities provided by the CDC, a Billets de Trésorerie and a Euro Commercial Paper programme. These programmes improved ACOSS's flexibility in managing its cash position.

#### Governance and Management

As the central government has the ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, its management and organisational structure reflects the government's influence and oversight. We note that since 2012, ACOSS has implemented a system that significantly reduces its liquidity risk, a positive with regards to the quality of ACOSS's risk management and internal controls.

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