Summary:
Agence Centrale des Organismes de Securite Sociale (ACOSS)

Primary Credit Analyst:
Marie-France Raynaud, Paris +33 (0)1 44 20 67 54; marie-france.raynaud@standardandpoors.com

Secondary Contacts:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@standardandpoors.com
Christophe Dore, Paris (33) 1-4420-6665; christophe.dore@standardandpoors.com

Table Of Contents

Rationale

Related Criteria And Research
Summary:

Agence Centrale des Organismes de Securite Sociale (ACOSS)

Credit Rating: --/--/A-1+

Rationale

We equalize our rating on ACOSS with our short-term sovereign credit rating on the Republic of France (unsolicited AA/ Stable/A-1+) because we consider, under our criteria, that 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.

In accordance with our criteria for government-related entities (GREs), such as ACOSS, we base our rating approach on our view of ACOSS' "critical" role for and "integral" link with the French government.

The French government created ACOSS in 1967 as a public administrative agency ("Établissement Public à Caractère Administratif d'État"; EPA). Owing to this status, we view the government as ultimately responsible for ACOSS' solvency.

France's constitutional laws safeguard the French population's right to receive social protection. We consequently consider ACOSS' role for the French government to be "critical," since it primarily consists of supervising and centralizing the collection of French Social Security General Scheme contributions and ensuring their redistribution. General Scheme expenditures should continue to account for about 16% of national GDP in 2014.

Furthermore, 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. The Ministry of Social Security and the Ministry of the Budget provide strong and broad state supervision of ACOSS. 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.

As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws. For 2014, ACOSS' external funding ceiling is set at €34.5 billion, compared with €29.5 billion in 2013. The ceiling takes into account the permanent deficits accumulated over the previous years, the expected additional cash gap by the end of 2014, gradual debt transfers to the sinking fund, CADES (Caisse d'Amortissement de la Dette Sociale), which redeems French social debt.

In our view, ACOSS will not need this ceiling to be raised in 2014 since we consider that it reached its yearly short-term cash requirement peak of €28.5 billion in April. The implementation in 2015 of the Responsibility Pact announced in January 2014, which comprises cuts in social contributions of about €30 billion by 2015, among other
things, will likely translate into a slowdown in growth in real social expenditures to less than 0.5% on average between 2014 and 2017 from 1.7% in 2013.

**Liquidity**

ACOSS manages billions of euros of cash flows (social security contributions, drawings on social benefits, debt refinancing) daily, amounting to about €2 trillion over a year.

In our view, ACOSS' liquidity management is sophisticated and based on prudent planning, and clear and efficient policies and procedures.

ACOSS has increased the predictability of its cash inflows, which bear the biggest uncertainty. With its counterparts, it has secured hundreds of agreements that specify the exact day of payments. ACOSS has also increased the monitoring of its cash outflows through IT programming of the demand for drawings, putting an end to the historical liquidity risk related to the "drawing right" on ACOSS' operational account granted to social benefit paying funds. More generally, the developing of the netting of flows with partners has limited the "intraday" risk.

In this context, we consider that the reinforcement of the IT framework, currently in progress, is supporting liquidity management. The efforts made in improving the ability to forecast cash inflows and outflows are also a positive factor. The diversification since 2006 of the sources of funding from French government financial arm Caisse des Dépôts et Consignations (CDC), through market funding and through the cash-pooling of social security entities, also underpins liquidity management at a contained cost.

ACOSS covers social security cash gaps and deficits with short-term funding only, as stipulated by the law. In 2014, we estimate that daily average short-term funding needs will increase to about €21.3 billion, compared with €19 billion in 2013.

To cover its short-term funding needs in 2014, ACOSS will continue to rely mainly on its capital market instruments--its euro commercial paper (CP) program and its French CP program. In 2013, market funding represented about 60% of ACOSS' external funding.

The reliance on the market is nevertheless mitigated by the fact that about one-half of ACOSS' French CP program is secured by French public entities. Moreover, ACOSS has access to short- and medium-term loans from CDC. Ultimately, if necessary, ACOSS has back-up liquidity lines from CDC and from commercial banks, as well as two back-up deposit accounts at Banque de France, the French central bank, and at the CDC. Last but not least, ACOSS' overfunding strategy allows for a further liquidity cushion.

It is very unlikely, in our opinion, that ACOSS will face liquidity stress given its tight management of incoming and outgoing cash flows. Moreover, ACOSS secures its short-term funding 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 French finance law, or through funding from the state's Public Debt Fund (Caisse de la Dette Publique). 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 most recently in July 2009.

**Related Criteria And Research**

- Sovereigns And Equalized GREs Commercial Paper Rating Methodology, March 29, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

**Additional Contact:**
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com
S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.