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Research Update:

French Social Security Agency ACOSS 'A-1+' Short-Term Rating Affirmed On Integral Link, Critical Role To French State

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Overview

- We think French social security agency Agence Centrale des Organismes de Sécurité Sociale (ACOSS) plays a "critical" role for the French state.
- Strong supervision by the French government and a precise legal framework give ACOSS an "integral" link with the central government, in our opinion.
- We think there is an "almost certain" likelihood that the French government would provide timely and sufficient extraordinary support to ACOSS if needed.
- We are affirming our 'A-1+' short-term rating on ACOSS.

Rating Action

On April 30, 2014, Standard & Poor's Ratings Services affirmed its 'A-1+' short-term issuer credit rating on the French social security system's central agency, Agence Centrale des Organismes de Sécurité Sociale (ACOSS). At the same time, we affirmed our 'A-1+' issue ratings on ACOSS' €25 billion French commercial paper program (CP) and €20 billion Euro CP program.

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 and 22 billion in 2012. The ceiling takes into account the permanent deficits accumulated over the previous years, which amounted to €23.8 billion at the end of 2013, the expected additional cash gap of €11.5 billion by the end of 2014, and €10 billion in 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 €27.5 billion in January. 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 the IT programming of 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 €20 billion Euro CP program and its €25 billion French CP program. In 2013, market funding represented about 60% of ACOSS' external funding. ACOSS' has historically had excellent access to the short-term capital markets, supported by the eligibility of its paper for European Central Bank repurchase operations.

The reliance on the market is nevertheless mitigated by the fact that about half of ACOSS' French CP program is secured by French public entities. Moreover, ACOSS has also already secured €2.5 billion in short-term loans for 2014 and a €6 billion medium-term loan with CDC. Ultimately, if necessary, we estimate that ACOSS has back-up liquidity of about €3.5 billion at its disposal through its €1.2 billion available cash advances from CDC, as well as back-up lines from commercial banks, which we understand are committed lines, for more than €1.5 billion, and two back-up deposit accounts at the French central bank, Banque de France (€200 million) and CDC (€500 million). 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

Ratings List

Ratings Affirmed

Agence Centrale des Organismes de Securite Sociale (ACOSS)

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

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