FitchRatings

Fitch Affirms ACOSS's Neu CP & ECP Programmes at 'F1+'

Fitch Ratings-Paris/London-29 March 2017: Fitch Ratings has affirmed Agence Centrale des Organismes de Securite Sociale's (ACOSS) EUR20 billion euro commercial paper (CP) programme and EUR25 billion Neu CP programme's Short-term foreign and local currency ratings at 'F1+'.

KEY RATING DRIVERS
The programmes' Short-term ratings reflect the status of ACOSS as a public agency (notably implying that it cannot file for bankruptcy), its strategic importance to the government and its tight control by the French state (AA/Stable/F1+). In line with the top-down approach in Fitch's public-sector entity rating criteria, the programmes' rating are equalised with and credit-linked to France's Short-term 'F1+' Issuer Default Rating, although obligations from both programmes constitute senior unsecured debt of ACOSS.

The French government has no legal obligation to prevent a default, but Fitch assumes that it is highly motivated to provide support and has the legal and financial means to enable ACOSS to meet its debt service obligations in a timely manner. As a public agency, ACOSS is eligible for last-resort emergency funding from the state. ACOSS's debt is fully consolidated into French general government debt.

ACOSS has strategic importance for the French social security system as it manages cash flows for the Social Security and Family Allowance Contribution Collection Offices (URSSAF) and most social security institutions (SSIs) and collects social security, pension and unemployment contributions.

The state exercises strong administrative, legal and financial oversight over ACOSS, by defining its strategy and monitoring its management through a 2014-2017 plan. The French parliament determines ACOSS's revenues, expenditures, and an annual limit on access to external short-term funding (EUR33 billion for 2017, after EUR40 billion in 2016).

Predictability is underpinned by the sizeable proportion of cash flows tied to contractual payment schedules (98%) and the limited, short-term financial impact of macroeconomic trends or social security reforms. Since 2015, ACOSS has been able to perform net settlements of multiple transactions with some SSIs, allowing it to reduce annual financial flows as well as operational risk.

As mandated by law, funding is exclusively short term and mainly relies on the Neu CP and ECP programmes. Previously managed by the Agence France Tresor, the ECP programme is now managed directly by ACOSS, enabling it to optimise its global funding programme and reduce costs. The state, some SSIs and Caisse d'Amortissement de la Dette Sociale (CADES; AA/Stable/F1+) routinely purchase ACOSS's CP to mutualise and optimise available public cash.

ACOSS aims to maintain a liquidity coverage ratio of 100% over 30 days. Fitch views ACOSS's liquidity arrangements as diversified and adequate, comprising liquidity instruments provided by Caisse des Depots et Consignations (CDC; AA/Stable/F1+) for a ceiling of EUR14 billion according to a 2015-2018 funding contract, and funding lines (EUR1.75 billion) under its ECP programme.

ACOSS's debt reflects accrued social security deficits, regularly taken over by CADES (EUR23.6 billion in 2016, no transfer expected in 2017), the state agency in charge of amortising French social debt. As a result of CADES' support, ACOSS's financing needs are expected to reach a low EUR25.9 billion in December 2017, remaining well below the EUR33 billion borrowing cap.

RATING SENSITIVITIES
Negative rating action could result from a downgrade of France's Short-term ratings, an adverse change in ACOSS's legal framework, or from insufficient external funding in terms of back-up lines for the short-term programmes

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Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/878660)
Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016) (https://www.fitchratings.com/site/re/877128)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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