MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
1 July 2021

RATINGS

Agence Centrale Organismes Securite Sociale

Domicile	Paris, France
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Agence Centrale Organismes Securite Sociale (France)

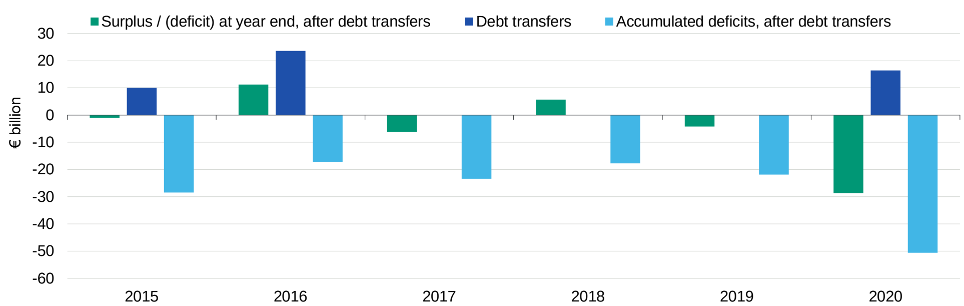
Update to credit analysis

Summary

The credit profile of Agence Centrale des Organismes de Sécurité Sociale's (ACOSS, Aa2 stable/P-1) reflects its key role in managing the cash flow of France's social security system, implying a high degree of support and supervision from the Government of France (Aa2 stable). We do not assign a Baseline Credit Assessment to ACOSS to reflect the high level of involvement from the central government in its governance, as well as its key public service role. The coronavirus outbreak, the associated relief measures and deterioration in economic conditions, have lead to an unprecedented deficit in 2020; however, the gradual transfer by ACOSS to Caisse d'Amortissement de la Dette Sociale(CADES, Aa2 stable) of around €120 billion in accumulated social security deficits by 2023[1] will significantly reduce ACOSS' debt burden, thereby mitigating the impact of the coronavirus on its finances.

Exhibit 1

Unprecedented coronavirus-induced deficit weighs on ACOSS' long-term trajectory of accumulated deficit reduction



Sources: ACOSS, Moody's Investors Service

Credit strengths

- Key role within French welfare system, with high degree of government support and supervision
- Unrestricted market access and adequate cash facilities
- Strong management and strict procedures to contain risks

Credit challenges

- Sensitivity of cash balances to economic cycles

Rating outlook

The stable outlook mirrors the rating outlook of the sovereign and reflects the strong institutional, financial and operational linkages with the Central Government.

Factors that could lead to an upgrade

Any upgrade of ACOSS' rating would require an upgrade of France's sovereign rating. However, this is unlikely given the Government of France's current Aa2 rating with stable outlook.

Factors that could lead to a downgrade

Conversely, a downgrade of France's sovereign rating will exert some downward pressure on ACOSS' rating. Any negative material change affecting ACOSS' institutional and financial framework could also negatively impact its rating.

Key indicators

Exhibit 2

EUR billion	2015	2016	2017	2018	2019	2020
Surplus / (deficit) at year end before debt transfers of the year	-11.0	-12.3	-6.1	5.7	-4.2	-45.1
Debt transfers to CADES	10.0	23.6	0.0	0.0	0.0	16.4
Surplus / (deficit) at year end after debt transfers of the year	-1.0	11.2	-6.1	5.7	-4.2	-28.7
Accumulated deficits after debt transfers	-28.5	-17.2	-23.4	-17.7	-21.9	-50.6

Sources: ACOSS, Moody's Investors Service

Detailed credit considerations

ACOSS' credit profile, as expressed in its Aa2 stable and P-1 ratings, reflects its strong institutional, financial and operational links with the French government.

Key role within French welfare system, with high degree of government support and supervision

ACOSS was created in 1967 as an EPA with the specific purpose of managing the centralised cash flow of France's social security system (*Sécurité sociale*). Contributions and tax receipts dedicated to social security funding, which totaled €511.9 billion in 2020, are transferred to ACOSS. The agency is then responsible for distributing adequate cash flow to each local or regional social security agency in charge of providing allowances and benefits (€557.1 billion in 2020).

We consider ACOSS a government-related issuer (GRI). 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. The various measures to support ACOSS undertaken by key French public stakeholders (CADES, Caisse des Dépots et Consignations [CDC, Aa2 stable], French central bank, French Treasury [AFT], see below) in 2020 demonstrate the critical part that ACOSS plays in the French welfare system. The rating approach for ACOSS is the same as that for GRIs rated solely on support, as our rating methodology for GRIs (Government-Related Issuers, February 2020) describes.

ACOSS operates under the dual authority of the Ministry of Public Finance and the Ministry of Health. As the central government has ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, the agency's management and organisational structure reflect the government's influence and oversight. ACOSS' board is also appointed by the central government, but it is not necessarily affected by any changes in the central government. During the coronavirus outbreak, the on-going supervision from both authorities proved particularly effective, allowing ACOSS to raise a significant amount of debt (over €350 billion raised throughout 2020, with an average amount outstanding of €63.4 billion) over a relatively short period of time.

Through the social security budget law (*Loi de Financement de la Sécurité Sociale*, or LFSS), the French government sets an annual limit on the maximum short-term debt that ACOSS can issue (*plafond de ressources non permanentes*), corresponding to the projected needs of ACOSS, and an additional buffer, which ensures adequate access to liquidity for the agency. This ceiling was revised twice, in March and May 2020, to €70 billion and €95 billion[2] respectively to account for the substantial widening of ACOSS' deficit as a consequence of the coronavirus relief measures and the deterioration in the economic outlook.

The lengthening of CADES'[3] lifespan to 2033 to accommodate for the additional deficit transfer also illustrates the central government's commitment to ACOSS' financial sustainability.

Unrestricted market access and adequate cash facilities

ACOSS' legal framework limits its debt issuance to short-term paper only. Because of increased borrowing requirements in recent years and negative money-market rates, ACOSS was already tapping the financial markets to raise short-term funding prior to the coronavirus crisis. The agency's short-term funding programmes include (1) a €70 billion ECP programme; and (2) a €70 billion Negotiable European Commercial Paper (NEU CP) programme, both with systematically hedged currency risk. Both of their sizes were increased from €40 billion in 2020. Part of the NEU CP issuances are subscribed by the French Treasury (*Agence France Trésor*, AFT) and CADES.

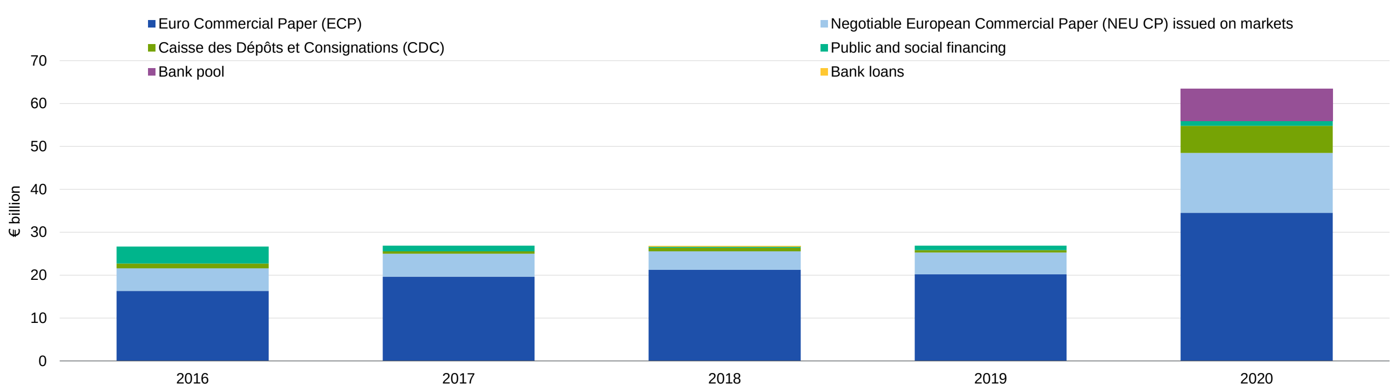
In addition, if necessary in 2021 ACOSS would again benefit from support from CDC (which was set at €21 billion in 2020) and from the renewal of the support provided by the French Treasury in 2020 and which is similar to what was put in place in 2010.

In 2020, ACOSS issued 788 NEU CP deals for a total of €194 billion (up from €172 billion in 2019). 55% of these issuances were issued to money market, demonstrating ACOSS' sound emergency response to unprecedented and unexpected funding shortfalls even when access to liquidity was slightly tighter in Q1 2020. The remainder was placed with CDC, AFT and CADES as part of the ongoing support provided by these key public stakeholders, as well as with a €24 billion pool of private sector banks which was put in place as a result of the coordination between the public stakeholders. The agency also issued 1,482 ECP transactions totaling €156 billion, all of them issued directly to the market (slightly up from €154 billion in 2019). Despite the massive recourse to short-term funding, and relative market disruption during the first lockdown, the weighted average interest rate was -0.37% and -0.51% for the NEU CP and ECP programmes, respectively, in 2020 which is a very modest increase from -0.45% and -0.53% weighted average rates in 2019 respectively), illustrating the agency's unquestioned access to markets.

Exhibit 3

Unprecedented deficit resulting from the coronavirus funded through unrestricted access to short-term funding

Average amounts outstanding (€ billion)



Sources: ACOSS, Moody's Investors Service

Strong governance and management

ACOSS has developed strong expertise in macroeconomic forecasts, which are updated on a monthly basis and incorporate a detailed assessment of potential measures affecting the social security system. These macroeconomic forecasts are used by ACOSS to closely monitor its treasury position and forecast future treasury balances. Each month, ACOSS reviews the differences between forecast and realised cash balances to improve its forecasting measures. Despite the unforeseeable nature of the coronavirus-induced deficits posing operational and financial challenges to ACOSS, the agency successfully coped while remaining compliant with its short-term debt ceiling thanks to cautious and continuous forecasting updates. While the deferrals of social contribution payments that were granted to French companies led to cash flows that were difficult to predict in 2020, we expect the uncertainty to gradually reduce over time, restoring the strong predictability of the agency's treasury needs in 2021 and 2022.

ACOSS has implemented sound debt management rules; for example, its currency risk is fully hedged and the agency carefully selects its dealers and strives to spread the risk by limiting the amount of commercial paper issuances that a single dealer can participate in. ACOSS has a conservative approach to debt management, limiting its maximum issuance outstanding to a level well below the borrowing limit imposed by law. The updated €95 billion limit proved sufficient in 2020 and is maintained in 2021; this ceiling seems appropriately sized, allowing for a sizeable cushion of extra short-term funding in case of unexpected deficit widening by the end of the year.

ACOSS signs multiyear objective plans with the central government (*Convention d'objectifs et de gestion* or COG in French). The current COG spans from 2018 to 2022 and is focused on improving its service to regional social security agencies and strengthening their operations. Over the last years, ACOSS has implemented various measures to limit operational risks (for instance, it runs decentralised operations several days a year) and closely monitors incidents in its network, which are reported regularly to the board. Thanks to these measures and its good level of preparedness, the agency switched to remote work during the lockdowns without major operational disruption. We understand ACOSS will keep investing in measures limiting operational risks, with a special focus on cybersecurity, one of the pillars of ACOSS' resilience[4].

Sensitivity of cash balances to economic cycles

ACOSS' cash flow is predictable during the year, although it is sensitive to changes in the economic cycle. The agency's treasury position has traditionally reflected the annual deficits that the healthcare and pension branches of the social security system incur.

In 2020, central government coronavirus relief measures (such as postponed payments of social contributions which led to cash shortfalls) in addition to increased healthcare expenditure resulting from the pandemic widened ACOSS' deficit. Its deficit will remain high in 2021, with social security deficit currently expected to reach close to €40 billion due to large coronavirus-related expenditure (such as tests and vaccines). Over the medium term, the impact of the coronavirus pandemic on the economy will weaken revenue growth compared to what was expected pre-crisis. The increased healthcare expenditure resulting from the 2020 healthcare reform ("*Ségur de la santé*") will also weigh on ACOSS' deficit.

However, debt transfers from ACOSS to CADES will help contain ACOSS' deficits and will alleviate the financial pressure arising from the pandemic. Since 1996, such transfers have occasionally improved ACOSS' cash position significantly. Over 2011-18, CADES funded the social security system's deficits on a yearly basis (limited to €10 billion per year or €62 billion over 2011-18). The 2020 social security budget law had canceled the additional €15 billion debt transfers from ACOSS to CADES that were contemplated in the 2019 social security budget law but in 2020, amid the coronavirus outbreak, new transfers to CADES were enacted: ACOSS will gradually transfer around €120 billion in accumulated social security deficits by 2023 (in addition to €13 billion in public hospital debt). ACOSS transferred €16.4 billion in 2020, while €38.7 billion will be transferred in 2021 and the remainder will be split between 2022 and 2023.

ESG considerations

How environmental, social and governance risks inform our credit analysis of ACOSS

We take account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic, institutional and fiscal strength and their susceptibility to event risk. In the case of ACOSS, the materiality of ESG to the credit profile is as follows:

Environmental risks are not material to ACOSS' ratings. In line with other advanced economies, environmental risks for France's credit profile are low despite the multiplication of extreme climatic events over the past several years (Seine and Loire floods in 2016, Hurricane Irma in 2017). Nevertheless, these risks are not material for the ratings, given ACOSS' strategic role and the support coming from the French central government.

Social risks are not material to ACOSS' ratings. We view the coronavirus outbreak as a social risk under our ESG framework, given the associated relief measures and its impact on economic growth and consequently on ACOSS' revenues and expenditures. Social risks have also been exposed by the eruption of social discontent in 2018 in the form of the so-called "yellow vest" movement.

Nevertheless, these risks are not material for the ratings, given ACOSS' strategic role and the support coming from the French central government.

Governance risks are material to ACOSS' ratings. The governance framework is intrinsically intertwined with the supporting government, which exerts strong oversight and ultimately takes key decisions.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

In assessing ACOSS' credit profile, we apply our Government-Related Issuers rating methodology, published in February 2020. Please see the Credit Policy page on moodys.com for a copy of this methodology.

Ratings

Exhibit 4

Category	Moody's Rating
AGENCE CENTRALE ORGANISMES SECURITE SOCIALE	
Outlook	Stable
Issuer Rating	Aa2
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

Endnotes

1 In addition, total transfers will also include a third of the debt burden of public hospitals as of FYE 2019 (i.e. €13 billion).

2 Up from €39 billion pre-coronavirus.

3 CADES is a sinking fund created in 1996 to redeem French social security debt.

4 ACOSS is classified as a key service provider (Organisme de Service Essentiel) by the French National Agency for the Security of Information Systems (ANSSI).

REPORT NUMBER 1278312

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