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PUBLIC SECTOR EUROPE

CREDIT OPINION
28 April 2020

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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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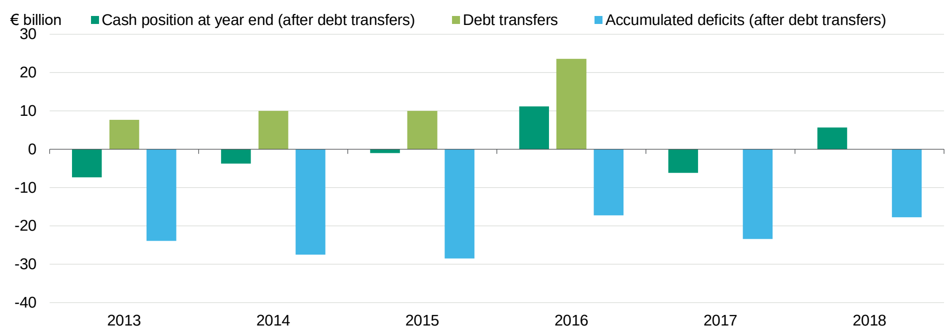
Agence Centrale Organismes Securite Sociale (France)

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 public service role. ACOSS' legal framework limits its debt issuance to short-term paper only. We expect the coronavirus outbreak, the associated relief measures, as well as the deterioration in the economic outlook, to lead to a substantial widening of ACOSS' deficit. However, greater visibility over the depth and length of the current crisis will be necessary in order to fully quantify its impact.

Exhibit 1
Prior to 2019, ACOSS' deficits had been narrowing



Sources: ACOSS, Moody's Investors Service

Credit strengths

» Key role within France's welfare system, with high degree of central government support and supervision

» Unrestricted market access and adequate cash facilities

» Strong management and strict procedures to contain risks

Credit challenges

» Cash balance sensitive 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 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	2013	2014	2015	2016	2017	2018
Cash position at YE before debt transfers of the year	-15	-13.7	-11.0	-12.3	-6.1	5.7
Debt transfers to CADES	7.7	10	10.0	23.6	0	0
Cash position at year end after debt transfers of the year	-7.3	-3.7	-1.0	11.2	-6.1	5.7
Accumulated deficits after debt transfers	-23.9	-27.5	-28.5	-17.2	-23.4	-17.7

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, as well as our assessment of a very high likelihood of extraordinary support for ACOSS from the central government should it face acute liquidity stress.

Key role within France's welfare system, with high degree of central 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 totalled €516 billion in 2018, 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 (€510.3 billion in 2018).

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 critical part that ACOSS plays in the French government's coronavirus relief plan highlights its key role within the French welfare system[1]. 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 appointed by the central government, but it is not necessarily affected by any changes in the central government (in July 2017, ACOSS' president was re-elected by unanimous vote).

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. The creation in 1996 of Caisse d'Amortissement de la Dette Sociale (CADES, Aa2 stable) a sinking fund to redeem French social security debt, also illustrates the central government's commitment to ACOSS' financial sustainability.

Unrestricted market access and adequate cash facilities

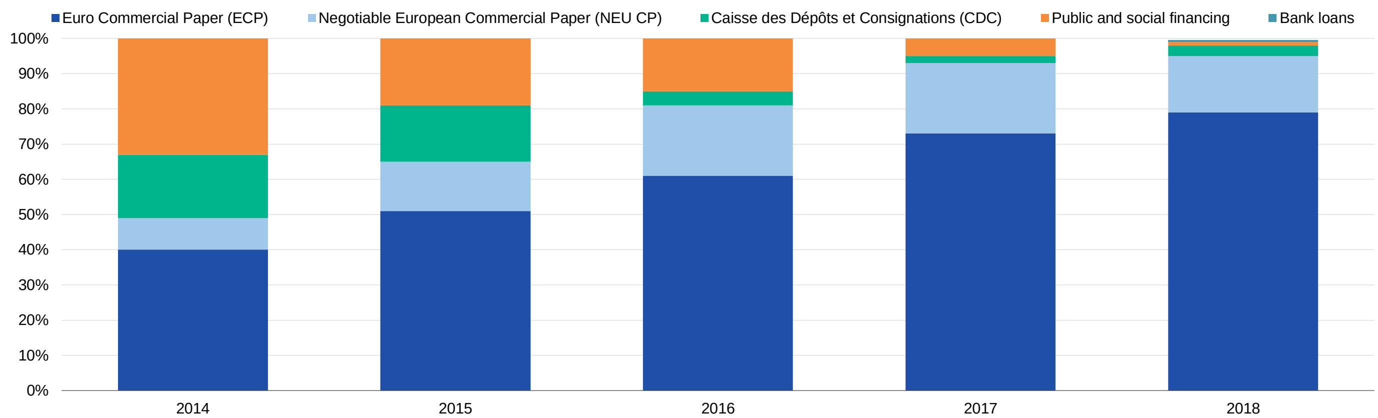
ACOSS' legal framework limits its debt issuance to short-term paper only. Because of increased borrowing requirements in recent years and negative money-market rates, ACOSS has increasingly turned to financial markets to raise short-term funding. In 2016, ACOSS became the second-largest issuer of euro commercial paper (ECP) globally. The agency's short-term funding programmes include (1) a €40 billion ECP programme totaling with systematically hedged currency risk; and (2) a €70 billion Negotiable European Commercial Paper (NEU CP) programme, part of which is subscribed by the French Treasury and CADES.

In April 2020, ACOSS increased the size of its NEU CP programme to €70 billion from €40 billion due to increased short-term funding needs brought on by central government coronavirus relief measures. In addition, we expect ACOSS to benefit from support totalling €30 billion from Caisse des Dépots et Consignations (CDC, Aa2 stable) and the French Treasury (*Agence France Trésor*), similarly to what was put in place in 2010.

For reference, in 2018, ACOSS issued 682 NEU CP deals for a total of €153 billion, of which 54% was issued to money markets (the remaining was placed with CADES, CDC and Agence France Tresor). The agency also issued 1253 ECP transactions totaling €148 billion, all of them issued directly to the market. The weighted average interest rate was -0.36% and -0.52% for the NEU CP and ECP programmes, respectively, in 2018, illustrating the agency's unquestioned access to markets.

Exhibit 3

ACOSS has increasingly turned to financial markets to raise short-term funding



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 the forecast and realised cash balances to improve its forecasting measures.

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. We also positively note that ACOSS is prepared for Brexit (which could have potentially improved ECP hedging contracts).

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. ACOSS develops measures to limit operational risks (for instance, it runs decentralised operations several days a year) and closely monitors incidents in its network, which is reported regularly to the board.

As part of the government's treasury mutualisation strategy for social security entities, to reduce their funding costs, ACOSS can provide liquidity facilities for one to 12 months to other entities with higher funding costs, which outlines ACOSS' good performance in treasury management. Since the beginning of 2017, ACOSS has been financing 100% of *Caisse nationale de la mutualité sociale agricole's* and *Caisse autonome nationale de la sécurité sociale des mines*' cash flow needs.

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.

Over the short term, central government coronavirus relief measures will widen ACOSS' deficit, as postponed payments of social contributions will lead to cash shortfalls. Over the medium term, lower economic growth due to the coronavirus outbreak will weaken revenue growth and increase expenditures, leading to a further widening of ACOSS' deficit. However, greater visibility over the depth and length of the current crisis will be necessary in order to fully quantify its impact.

Since 1996, debt transfers from ACOSS to CADES 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). ACOSS transferred €6.6 billion of its deficit to CADES in 2012, €7.7 billion in 2013, €10 billion in 2014 and 2015, and €23.6 billion in 2016. The 2020 social security budget law canceled the additional €15 billion debt transfers from ACOSS to CADES that were contemplated in the 2019 social security budget law. On March 25 2020, amid the coronavirus outbreak, the French government: (1) announced that it intends to mobilize CADES in the medium term in order to reduce ACOSS' short-term funding needs; and (2) increased ACOSS' borrowing limit for 2020 to €70 billion from €39 billion.

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 France.

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 expected 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 France.

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 Please refer to Coronavirus – France : Coronavirus measures will negatively impact GRIs with social welfare mandates but credit profiles anchored by sovereign (March 2020).

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