Fitch Affirms ACOSS at 'AA'; Outlook Stable

Fitch Ratings has affirmed Agence Centrale des Organismes de Securite Sociales' (ACOSS) long-term foreign and local-currency Issuer Default Ratings (IDR) at 'AA'. The outlook is stable. Fitch has also affirmed ACOSS's senior unsecured EUR40 billion euro commercial paper (ECP) programme and EUR40 billion NeuCP programme at short-term ratings 'F1+'.

ACOSS is an administrative public agency, in charge of the social security scheme's cash operations and the financing of short-term deficits accumulated by social security branches. ACOSS is only allowed to issue notes with maturity of less than a year through its two commercial programmes, while CADES (AA/Stable) is responsible for medium- and long-term financial debt amortisation of social security debt.

KEY RATING DRIVERS
The equalisation of ACOSS's ratings with those of the French state reflects the following assessments on the rating factors.

Status, Ownership and Control: Very Strong
ACOSS has the status of public administrative agency (EPA). In case of dissolution, all its assets and liabilities would be transferred to the state or another public entity. ACOSS is also closely supervised by the French state. Its managing director is nominated by decree and its budget and financial accounts must be approved by the ministers of social affairs and of finances. ACOSS's strategy and operations are defined through a multi-year plan agreed with the state (*Conventions d'Objectifs et de Gestion;* COG). ACOSS is also tightly monitored by the French parliament. The latter determines social security revenue each year as part of the Social Security Financing Bill and sets an annual ceiling on ACOSS's daily borrowings (EUR39 billion in 2020).

Support Track Record and Expectations: Very Strong
The French state can support ACOSS through several ways. It can require CADES to assume a share of ACOSS's carried-over deficit (EUR123 billion of debt transferred to CADES since 2010). The state can also purchase ACOSS's NeuCP notes through the French Treasury Agency (AFT), Caisse de Dépôts et Consignations (CDC; AA/Stable), CADES and other social security institutions (31% of NeuCP issues were purchased by AFT and CDC in 2019), without increasing the general government debt (GGD) as ACOSS' debt is already included in the GGD. By virtue of its EPA status, ACOSS can benefit from state's emergency liquidity support mechanisms. It also benefits from short-term credit facilities through a multi-year banking agreement with CDC (currently 2019-2023). Finally, the French parliament can raise the ceiling on ACOSS's daily borrowing if needed. Fitch considers the law of 16 July 1980 makes the state liable for the debt of its EPA, although we do not consider the law to be tantamount to a guarantee. Fitch sees no legal or regulatory restriction on state support.

Socio-Political Implications of Default: Very Strong
ACOSS is a key strategic public institution as it sits at the heart of the French social security system. 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. ACOSS heavily relies on external short-term financing through its ECP and NeuCP programmes to fund the difference between the social contributions collected and the benefits paid. A default would threaten ACOSS's ability to carry out its operations and would thus endanger the continued provision of essential public service. In Fitch's view, ACOSS's default would have significant political and social repercussions on the state.

Financial Implications of Default: Very Strong
Fitch views ACOSS as a proxy funding vehicle for the state. ACOSS is also a large issuer through its two programmes and one of the largest French issuers in the NeuCP market. In 2019, it issued a cumulative EUR171 billion of NeuCP and a cumulative EUR173 billion of ECP. Fitch believes that a default of ACOSS would not only have negative consequences on the overall funding of the social security system, but would also be very detrimental to the sovereign's credit standing and the borrowing capacity of other French GREs.

Operations:
At end-2019, ACOSS received EUR532 billion of social contributions, of which EUR296 billion from private sector and EUR51 billion from public sector, and redistributed EUR536 billion of social benefits, including EUR197 billion for the health branch and EUR112 billion for the pension branch of the social security. This resulted in a deficit of EUR4 billion of cash variation at end-2019 (vs. surplus of EUR6 billion at end-2018).

ACOSS's liquidity management is prudent and sophisticated. ACOSS makes advanced financial forecasts for its future daily liquidity positions over a one-year period and aims to maintain a liquidity ratio of 100% over 30 days. The maximum gross financing need estimated by ACOSS for 2020 was EUR37 billion, below the short-term borrowing ceiling of EUR39 billion set by the French parliament for the same year.

DERIVATION SUMMARY
Fitch classifies ACOSS as a government-related entity (GRE) of the French state (AA/Stable) under its GRE rating criteria. Given the very strong links between ACOSS and the state and the very strong incentive for the state to support ACOSS in case of need, Fitch assigns a GRE score of 60 points, leading to equalisation of ACOSS's ratings with those of the sovereign, irrespective of its stand-alone credit profile (SCP).

RATING SENSITIVITIES
Negative rating action could result from a downgrade of France's ratings, or from a significantly weaker assessment of strength of linkage or incentive to support factors, leading to a score below 45 points under our GRE criteria, which would lead to a top-down assessment minus one notch.

A positive rating action would result from an upgrade of France's ratings.

ESG CONSIDERATION
ESG credit relevant is a score of 3, meaning that ESG issued are credit neutral. Given the missions of the issuer and the institutional framework, these issues are minimally relevant to the rating.

Fitch Ratings

Contact:
Primary Analyst
Margaux Vincent
Analyst
+33 1 44 29 91 43
Fitch France S.A.S.
60 rue de Monceau
Paris 75008

Secondary Analyst
Nicolas Miloikovitch
Analyst
+33 1 44 29 91 89

Committee Chairperson
Vladimir Redkin
Senior Director
+7 495 956 2405