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Agence Centrale des Organismes de Securite Sociale (ACOSS)

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Agence Centrale des Organismes de Securite Sociale (ACOSS)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:	Weaknesses:
• A critical mission for the French government in collecting and redistributing France's general scheme social security contributions and closing cash flow gaps through short-term funding only, excluding any borrowing of more than one year as per the law. • Status as a state public agency implies strong state supervision and support. • Strong track record of direct and indirect support from the central government.	• Partial and ad-hoc transfer of accumulated deficits to the dedicated debt amortization fund. • Central government fiscal package to counter the adverse economic effects of the COVID-19 pandemic, which is significantly heightening ACOSS' funding needs for 2020.

Outlook

The stable outlook on Agence Centrale des Organismes de Securite Sociale (ACOSS) reflects S&P Global Ratings' stable outlook on France (unsolicited; AA/Stable/A-1+). We believe that ACOSS will retain its critical role for and integral link with France. Given that the central government fiscal package to counter the adverse economic effects of the COVID-19 pandemic significantly increases ACOSS' funding needs for 2020, we expect direct and indirect state support to remain extremely strong.

Downside scenario

We could lower our ratings on ACOSS following a similar rating action on France. We could also lower the ratings if we believe that ACOSS no longer has an integral link with the government, for example, if ACOSS were to lose its state public administrative agency (Établissement Public à Caractère Administratif; EPA) status or if its role were to diminish.

Upside scenario

We could raise the long-term rating if France's credit quality were to improve and the likelihood of support for ACOSS remained almost certain.

Rationale

We regard ACOSS as a government-related entity that would benefit under stress from an almost certain likelihood of extraordinary support from France, based on our assessment of the agency's:

- Critical role for the French government in collecting and redistributing France's general scheme social security contributions and closing cash flow gaps through short-term funding only, excluding any borrowing of more than one year as per the law; and
- Integral link with the government as a state public agency, which implies strong state supervision and support.

ACOSS will remain the cornerstone of the French welfare state. France's constitutional laws, set in 1945, safeguard the French population's right to receive social protection. We consequently expect ACOSS' role for the French government will remain critical. ACOSS' role primarily consists of managing France's social security general scheme cash flows by supervising and centralizing the collection of contributions, ensuring the timely redistribution of social benefits, and closing cash flow gaps through short-term funding only. Subsequently, Caisse d'Amortissement de la Dette Sociale (CADES; the social security debt amortization fund, which redeems France's social security debt) is in charge of refinancing and amortizing accumulated Social Security System (SSS) deficits when the government decides to transfer them from ACOSS. This explains why ACOSS legally focuses only on short-term funding, rather than any long-term borrowings (more than one year).

ACOSS is responsible for paying, through provider entities, pensions, family, and health benefits, with the exception of unemployment benefits, which are managed by Unedic, the national agency in charge of these benefits. These transfers benefit the majority of French people and their timely payment, especially of pensions, is crucial. General scheme expenditures accounted for about 17% of GDP in 2019. We also believe a default of the entity would significantly damage the central government's reputation.

We expect ACOSS to keep its EPA status allowing prompt access to emergency funding from the French treasury. As part of the French SSS, ACOSS was set up in 1967 as a state public administrative agency (Établissement Public à Caractère Administratif; EPA). Owing to this status, we view the government as ultimately responsible for ACOSS' solvency. The agency's legal status, mission, and funding are precisely framed by law, which, in our opinion, entails an integral link between ACOSS and the French government. We don't anticipate any change in ACOSS' legal status. As allowed for EPAs under France's finance law, ACOSS has prompt access to emergency funding from the French treasury (AFT), through purchases of commercial paper (CP).

State supervision of ACOSS is strong, especially in the current COVID-19 pandemic context ACOSS is under strong state supervision via the Ministry of Solidarity and Health and the Ministry of Public Action and Accounts. The director of ACOSS is appointed by decree and reports directly to the ministries. The director's main mandate is to strictly implement the state's decisions and policies regarding the SSS. ACOSS' board is made up of 26 employers and social security beneficiaries' representatives and four state representatives. Its decision-making capacity is, however, limited, and enforceable only if the supervisory authorities do not oppose it.

ACOSS is generally subject to monthly reporting and meetings with its supervisory ministries, although interactions are daily in practice, especially regarding cash flows and liquidity. This is even more so during the current COVID-19 pandemic. We understand that the pace of reporting with supervisory ministries has significantly increased, with meetings including AFT.

Since 1996, ACOSS has signed multiyear contracts with the government, laying out its objectives. In addition, the French Court of Audit (Cour des Comptes) is responsible for certifying ACOSS' accounts and provides frequent reports on France's social security plans, including its funding.

The fiscal package to counter the adverse economic effects of the COVID-19 pandemic will significantly increase ACOSS' funding needs for 2020, but strong direct and indirect support from the central government will limit market funding needs. As part of the tight framework regulating ACOSS' activities, the French parliament sets ACOSS' external funding ceiling in its Social Security Funding Laws. For 2020, ACOSS' external funding ceiling was initially set at €39 billion. To counter the adverse economic effects of the pandemic, the government has announced a sizable fiscal package that heightens ACOSS' funding needs mainly because of social contribution holidays and, much less so, additional spending on health care. Therefore, on March 25, a decree swiftly allowed a further extension of ACOSS' annual borrowing ceiling to €70 billion, above the €65 billion record ceiling reached in 2010.

We do not expect that the increase in funding needs will mean ACOSS will need to rely more on the direct issuances of short-term notes it has made via the NEU CP and Euro CP programs--respectively €70 billion and €40 billion. At this stage, we understand the average outstanding CP directly issued on the market should remain close to the 2019 level of between €25 billion and €30 billion. We understand that a large part of ACOSS' up-scaled financing in 2020 will come from exceptional funding from Caisse des Dépôts et Consignations (CDC; a public-sector financial institution mandated with conducting specific public missions), AFT, and some commercial banks. By the end of 2020/beginning of 2021, we expect the liquidity pressure on ACOSS to be relieved by large debt transfers to CADES.

ACOSS' cash management is sophisticated, with clear and efficient policies and procedures. It is guided by two main objectives: security and predictability. ACOSS has significantly increased the predictability of its cash inflows by securing hundreds of agreements with counterparties that specify the exact day of payment. ACOSS' strictly monitors its cash outflows through information technology systems that set the dates for drawings, and is continuously developing systems of netting cash flows with partners, limiting intraday liquidity risk. Consequently, ACOSS benefits from a highly predictable cash flow planning, with very limited deviations when compared to actual cash flow. To mitigate refinancing exposure, ACOSS' strategy aims to issue CP before ACOSS needs the actual funding and to over-issue, allowing for a further liquidity cushion.

In normal circumstances, ACOSS' funding strategy prioritizes the diversification of liquidity sources through three main channels: cash pooling with social security entities; short-term funding from state agencies (chiefly AFT and CADES); and direct issuance of only short-term notes on the financial market via NEU CP and Euro CP programs, since ACOSS is prohibited by law from issuing long-term debt. In general, as it did again in 2019, ACOSS creates a liquidity base with its Euro CP program (average issuance maturity of 33 days in 2019) and adjusts its liquidity needs with its NEU CP program. Moreover, ACOSS has signed a new convention with CDC for 2018-2022, providing strong visibility and security regarding liquidity and funding. CDC could fund ACOSS with up to €11 billion annually, with €7 billion via three-to-12-month loans and up to €4 billion in short-term loans thanks to CDC's commitment to buy NEU CPs issued by ACOSS. ACOSS also has two back-up deposit accounts at Banque de France (currently at least €700 million) and CDC (currently not used).

Selected Indicators

Table

ACOSS Cash Flow Statement

	--Year-ended Dec. 31--										
(Bil. €)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Cash inflows from operating activities											
Local offices network collections	257.8	263.7	301.6	313.4	325.4	332.5	337.7	341.9	353.5	373.3	363.0
Other revenues	102.0	106.3	117.5	127.2	133.2	143.9	151.1	144.1	145.1	142.8	169.0
Total	359.8	370.0	419.0	440.6	458.6	476.4	488.8	486.0	498.7	516.0	532.0
Cash outflows from operating activities											
Health insurance and AT-MP	164.6	168.6	173.2	176.4	181.0	186.0	189.6	191.5	196.9	201.7	206.7
Old age pension	87.2	90.9	94.7	98.9	101.8	104.0	106.3	107.9	110.3	112.3	111.5
Family benefits	62.7	63.2	65.2	67.8	70.5	72.7	74.4	76.8	77.7	77.7	80.9
Administrative costs	8.7	9.2	9.4	9.7	9.7	7.3	3.5	3.3	3.4	3.4	4.9
Other expenditure (including third-parties)	60.4	63.4	97.0	106.3	110.5	120.0	126.0	118.8	116.6	115.2	132.3
Total	383.6	395.3	439.5	459.2	473.6	490.1	499.8	498.4	504.8	510.3	536.2
Cash flow from operating activities	(23.8)	(25.4)	(20.5)	(18.6)	(14.9)	(13.7)	(11.0)	(12.4)	(6.1)	5.7	(4.2)
Previous deficit/surplus at year end	(17.3)	(24.1)	(49.5)	(4.7)	(16.6)	(23.8)	(27.5)	(28.5)	(17.3)	(23.4)	(17.7)
Debt transferred to the State	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt transferred to CADES	17.0	0.0	65.3	6.7	7.7	10.0	10.0	23.6	0.0	0.0	0.0
Deficit/surplus at year-end	(24.1)	(49.5)	(4.7)	(16.6)	(23.8)	(27.5)	(28.5)	(17.3)	(23.4)	(17.7)	(21.9)
Cash inflows from financing activities											
Commercial paper	9.6	29.3	4.2	16.9	20.5	17.7	22.7	20.4	27.6	23.0	26.6
CDC advances and loans	14.5	20.0	1.4	0.0	3.0	4.5	4.6	0.0	0.0	0.0	0.0
Other	0.0	0.9	0.3	2.1	2.2	2.6	1.2	1.1	0.5	0.4	0.4

Sources: S&P Global Ratings, ACOSS.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 3, 2020

Ratings Detail (As Of April 21, 2020)*	
Agence Centrale des Organismes de Securite Sociale (ACOSS)	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	A-1+
Issuer Credit Ratings History	
04-Apr-2018	AA/Stable/A-1+
15-Jun-2010	--/--/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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