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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:
<ul style="list-style-type: none"><li>• 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.</li><li>• Status as a state public agency implies strong state supervision and support.</li><li>• Strong track record of direct and indirect support from the central government, especially noted during the pandemic.</li></ul>	<ul style="list-style-type: none"><li>• Partial and ad-hoc transfer of accumulated deficits to the dedicated debt amortization fund.</li><li>• Central government fiscal package to counter the adverse economic effects of the COVID-19 pandemic will continue to weigh significantly on ACOSS' funding needs in 2021.</li></ul>

## 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. Because the central government's fiscal package to counter COVID-19 economic fallout will continue to markedly heighten ACOSS' funding needs for 2021, 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. This could occur, 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 on ACOSS 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, if under financial stress, would benefit from an almost certain likelihood of extraordinary support from France. This is 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**

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. It 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. As part of France's approach to dealing with the unprecedented social needs created by the COVID-19 pandemic since 2020, CADES will likely take over €136 billion of ACOSS' debt by the end of 2023. As such, CADES' amortization horizon has been postponed to 2033 from 2024 previously. 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. Unemployment benefits are the exception; they 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 and 19% in 2020. In our view, the importance of these tasks indicate that a default of the entity would significantly damage the central government's reputation.

### **ACOSS is likely to remain a state public administrative agency**

As part of the French SSS, ACOSS was set up in 1967 as a state public administrative agency (Établissement Public à Caractère Administratif; EPA). In our view, this status makes the government 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)--more than €10 billion potential exceptional financing from AFT.

### **State supervision of ACOSS is strong, especially regarding pandemic-related solutions**

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 comprises 26

employers and social security beneficiaries' representatives and four state representatives. Its decision-making capacity is limited, however, and enforceable only if the supervisory authorities do not oppose.

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 has been particularly true throughout the COVID-19 pandemic. We understand that the pace of reporting with supervisory ministries has significantly increased, including daily contacts with AFT on treasury management.

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 strain of COVID-19-related fiscal packages is somewhat offset by large debt transfers to CADES**

As part of the tight framework regulating ACOSS' activities, the French parliament sets the agency's external funding ceiling in its Social Security Funding Laws. For 2020, ACOSS' external funding ceiling was initially set at €39 billion. The government leaned on sizable fiscal packages to counter the adverse economic effects of the pandemic, prompting a hefty increase in ACOSS' funding needs because of additional spending on health care and, more importantly, social contribution holidays. ACOSS estimated that delayed or cancelled social contributions totaled around €18 billion at the end of 2020. In response, a decree swiftly enabled ACOSS' annual borrowing ceiling to stretch to €70 billion in March 2020, then again to €95 billion in July, compared with the €65 billion record ceiling reached in 2010. The increased ceiling has been extended through 2021.

Following the peak of April-June 2020, this year's funding needs will remain significant but decrease. We anticipate that the liquidity pressure on ACOSS will be relieved by large debt transfers to CADES. CADES will take over a large part of ACOSS' debt. The first transfer of €16.4 billion was made in August 2020, and a transfer of €38.7 billion is planned in 2021. These transfers amount to a total debt takeover of €136 billion by the end of 2023. Nevertheless, this will mean ACOSS will continue to rely extensively on the direct issuances of short-term notes via the programs of NEU CP (€70 billion) and Euro CP (raised to €70 billion in July 2020 from €40 billion). In 2020, we estimate that the average outstanding CP directly issued on the market has only slightly increased to between €25 billion and €30 billion, as the bulk of the issuances were directly subscribed by a pool of banks and Caisse des Dépôts et Consignations (CDC; a public-sector financial institution mandated with conducting specific public missions). Conversely, in 2021, we understand that the main part of ACOSS' up-scaled financing will come from CP market issuance. In addition, ACOSS has secured potential extra funding with its main banking partners, through large purchase of ACOSS NEU CPs by various commercial banks if needed (more than €20 billion funding available). Therefore, exceptional funding from CDC and AFT should stay marginal this year.

### **ACOSS' cash management is sophisticated, with clear and efficient policies and procedures**

The agency's cash management is based on two 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. The CP programmes are multi-currency but the agency is not exposed to foreign currency exchange risk

as it hedges each of its issuance through currency swaps. 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 more ample liquidity cushion. From 2020, in the context of the pandemic and in order to cope with potential additional deferrals of social security contributions, ACOSS extended treasury management horizon to secure cash flow and typically have funding available for 20-30 days of social benefit payments. This enabled ACOSS to accumulate an extra precautionary liquidity buffer.

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 2021, however, ACOSS will mainly resort to CP market issues to cover most of its financing needs to take advantage of favorable market conditions and ample liquidity, and continue to benefit from the negative rates earned on its short-term market issuances. In general, ACOSS creates a liquidity base with its Euro CP program (average outstanding ECP amount in 2020 of €34.2 billion) and adjusts its liquidity needs with its NEU CP program (average NEU CP outstanding amount of €13.9 billion in 2020). As part of the pandemic financing plan, issuing policy has been further secured through over-borrowing (above €15 billion over-issuing expected in average in 2021), increased issue duration (CP issuance maturity is increased from pre-crisis level of 30 days to almost 90 days), and order splitting. Moreover, ACOSS signed a new convention with CDC, providing strong visibility and security regarding liquidity and funding. CDC could fund ACOSS with up to €11 billion annually and additional special COVID-19 loan of €10 billion could also be granted in case of need, as provided in 2020, 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).

## 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 2, 2021
- Sovereign Risk Indicators, Dec. 14, 2020. An interactive version is available at [www.spratings.com/sri](http://www.spratings.com/sri)

### Ratings Detail (As Of April 16, 2021)\*

#### Agence Centrale des Organismes de Securite Sociale (ACOSS)

Issuer Credit Rating

AA/Stable/A-1+

Commercial Paper

A-1+

**Ratings Detail (As Of April 16, 2021)\*(cont.)**

**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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