FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ACOSS at 'AA'; Outlook Negative

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Fitch Ratings - Barcelona - 04 Jul 2022: 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 Negative Outlook reflects that on the sovereign. A full list of rating actions is below.

Fitch classifies ACOSS as a government-related entity (GRE) of the French state (AA/Negative) under its GRE Criteria and equalises its ratings with its sponsor. This reflects 'Very Strong' institutional and financial links between ACOSS and the French state, and a 'Very Strong' incentive for the sovereign to support ACOSS.

KEY RATING DRIVERS

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 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 (Convention d'objectifs et de gestion; COG).

ACOSS is also tightly monitored by 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 (EUR95 billion in 2021).

Support Track Record: 'Very Strong'

The French state can support ACOSS in several ways. It can require Caisse d'amortissement de la dette sociale (CADES) to assume a share of ACOSS's carried-over deficit (EUR136 billion of debt will be transferred until 2033, including EUR16 billion in 2020 and EUR38 billion in 2021 and EUR40 billion in 2022).

The state can also purchase ACOSS's NeuCP notes through the French Treasury Agency (AFT), Caisse de Dépôts et Consignations (CDC; AA/Negative), CADES (AA/Negative) and other social security institutions (33% of NeuCP issues were purchased by AFT and CDC in 2020), without increasing general government debt (GGD) as ACOSS's debt is already included in GGD. By virtue of its EPA status, ACOSS can benefit from the 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).

Given the central role of ACOSS, French parliament can raise the ceiling on ACOSS's daily borrowing if needed, which it did in 2020 to EUR95 billion from EUR39 billion through two decrees to enable ACOSS to meet pandemic-related funding needs. This borrowing ceiling was revised down to EUR65 billion on 1 January 2022 due to decreasing financing needs as the French economy recovers from the pandemic.

It is Fitch's view that the law of 16 July 1980 makes the French state liable for the debt of its EPA, although we do not see the law as tantamount to a guarantee. Fitch sees no legal or regulatory restriction on state support.

Socio-Political Implications of Default: 'Very Strong'

In Fitch's view, ACOSS's default would have significant political and social repercussions for the state. ACOSS is a key strategic public institution as it sits at the heart of the French social security system. It manages cash flows for social security and family allowance contribution collection offices (URSSAF) and most social security institutions (SSIs) and collects social security, pension and unemployment contributions. Given the importance of ACOSS it has no potential substitute in case of default.

ACOSS relies heavily 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 by ACOSS would threaten its ability to carry out its operations and would thus endanger the continued provision of an essential public service.

Financial Implications of Default: 'Very Strong'

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 detrimental to the sovereign's credit standing and the borrowing capacity of other French GREs.

Fitch views ACOSS as a proxy funding vehicle for the state. ACOSS is also a large issuer through its two commercial paper programmes and one of the largest French issuers in the NeuCP market. In 2020, ACOSS increased the ceiling of both its ECP and NeuCP programmes to EUR70 billion each (from EUR40 billion) to meet its large financing needs associated with the pandemic. In 2021 it issued a total EUR63 billion of NeuCP and a cumulative EUR163 billion of ECP.

Operating Performance

The unprecedented pandemic severely affected the activity and funding of ACOSS in 2020. In 2020, ACOSS's financing needs on average were EUR63 billion, and reached a peak of EUR90 billion in June, close to the borrowing daily ceiling set by parliament at EUR95 billion for 2020.

In 2021 social contributions collected by ACOSS increased 9% compared with to EUR557 billion. This increase is explained both by the strong economic growth and reduced use of government-sponsored partial-unemployment schemes, under which income was exempt from social contributions. Benefits paid by ACOSS in 2021 grew at a slower pace than contributions (4% compared with 2020). They however exceeded social contributions (EUR577 billion) because of the high level of health-related spending, due to the Covid-19 vaccination campaign and national salary increases for hospital staff ("Ségur de la santé" measures).

However, following the transfer of EUR38.7 billion of debt to CADES, ACOSS had a surplus of receipts over disbursements during 2021 of EUR18.7 billion. This resulted in a smaller cash deficit of EUR31.9 billion at end-2021, versus a cash deficit of EUR50.6 billion at end-2020. ACOSS's financing needs peaked in June 2021 at EUR60.4 billion.

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.

Derivation Summary

Fitch views ACOSS as a GRE of the French state and equalises its ratings with those of the sovereign. This reflects a full support score of 60 under our GRE Rating Criteria. Fitch does not assign a Standalone Credit Profile (SCP) to ACOSS given its close financing and operational links with the French state.

Issuer Profile

ACOSS is an administrative agency in charge of the social security scheme's cash operations and the financing of short-term deficits accumulated by social security branches in France. ACOSS is allowed to issue notes with a maturity of less than one year through its two commercial-paper programmes.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-A negative rating action on the sovereign's ratings would be reflected in ACOSS's ratings

-A downgrade could result from a weaker assessment of the strength of linkage or incentives-to-support factors, leading to a score below 45 points under our GRE Criteria. This could result from an adverse change in legal status or lower strategic importance for the state, which Fitch views as unlikely.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-A positive rating action on the sovereign's ratings would be reflected in ACOSS's ratings

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ACOSS's ratings are equalised with those of the French state.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Agence Centrale des Organismes de Securite Sociale (ACOSS)	LT IDR	AA Rating Outlook Negative	Affirmed	AA Rating Outlook Negative
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA Rating Outlook Negative	Affirmed	AA Rating Outlook Negative
	LC ST IDR	F1+	Affirmed	F1+

senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Agence Centrale des Organismes de Securite Sociale (ACOSS)	EU Issued, UK Endorsed

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