S&P Global
Ratings

RatingsDirect®

Agence Centrale des Organismes de Securite Sociale

April 13, 2022

PRIMARY CONTACT

Adrienne Benassy
Paris

adrienne.benassy
@spglobal.com

SECONDARY CONTACT

Stephanie Mery
Paris
0033144207344
stephanie.mery
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
A critical mission for the French government in collecting and redistributing contributions from France's general social security scheme as well as closing the cash flow gaps through short-term borrowing.	Partial and ad-hoc transfer of accumulated deficits to the dedicated debt amortization fund.
Public agency status, implying strong state supervision and support.	Lagged effects of the pandemic on social security spending, which will likely continue weighing on funding needs.
Strong track record of direct and indirect support from the central government, most recently displayed during the pandemic.	

We regard the Agence Centrale des Organismes de Securite Sociale (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 given its critical role for the government in managing the cash flow of the social security system and its integral link with the government as a state public agency, protected by a strong legal framework.

Outlook

The stable outlook on 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.

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 it were to lose its state public administrative agency status (Établissement Public à Caractère Administratif [EPA] or 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 the agency remained almost certain.

Rationale

ACOSS will remain the cornerstone of the French welfare state and a state public administrative agency

ACOSS will continue to play a critical role for the French government as the manager of the national social system's cash flow. The right to benefit from social security is protected by constitutional laws and remains a key general interest mission for the French government. The agency is a key vector of this mission as it is responsible for collecting the main social security scheme's contributions, and redistributing, through provider entities, pensions, family, and health benefits, which apply to most of the French population and represented around 18% of GDP in 2021. Therefore, their timely payment is crucial, and we expect a default of ACOSS would significantly damage the central government's reputation.

In our view, ACOSS benefits from an integral link with the French government, as it was set up in 1967 as a state public administrative agency (Établissement Public à Caractère Administratif; EPA). We consider this legal status, which we do not expect to change, makes the government ultimately responsible for the agency's solvency. As allowed for EPAs under French finance law, ACOSS has prompt access to emergency funding from the French treasury (AFT) through purchases of commercial paper (CP)--this results in more than €10 billion potential exceptional financing from AFT.

Strong state supervision

ACOSS' management and organizational structural reflects strong central government supervision and oversight. The agency operates under the dual supervision of the Ministry of Solidarity and Health and the Ministry of Public Action and Accounts. The central government appoints ACOSS' director, who reports directly to the ministries and whose mandate is to implement the government's social security policies. The agency's board comprises 26 employers and social security beneficiaries' representatives and four state representatives. Its decision-making capacity is limited, and enforceable only if 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 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 the agency accounts for and provides frequent reports on France's social security plans, including its funding.

Higher funding needs since the pandemic's onset partially offset by transfers to the social security debt amortization fund

Funding needs before debt transfers will increase in 2022 after a slight decline in 2021. The cash deficit before debt transfers narrowed to €20.0 billion in 2021 from €45.1 billion in 2020. Cash flows increased despite continued social contribution holidays, but expense rose too, especially health-care spending, limiting the reduction in financing needs in 2021. ACOSS expects the cash deficit to widen to €34.2 billion in 2022 as health care expenditure continues to rise, given lagged effects from pandemic-related 2021 spending, health-care professionals salary increases, support to health care institutions, and higher minimum welfare benefits and pensions, reflecting higher inflation.

Debt transfers to the sinking fund in charge of refinancing and amortizing social security debt (Caisse d'Amortissement de la Dette Sociale [CADES]) will continue to alleviate ACOSS' funding needs. The government can decide to transfer the agency's debt burden to the CADES, which was due to expire in 2024. However, given ACOSS' higher funding needs owing to the pandemic, the government extended CADES's amortization horizon to 2033 and agreed to transfer €136 billion of ACOSS' debt from 2020-2023. The agency transferred €16 billion in 2020 and €39 billion in 2021, and expects to wire €40 billion in 2022.

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

By law, ACOSS is limited to short-term borrowing to manage cash flow gaps. As part of the tight framework regulating activities, the French parliament sets the agency's external funding ceiling in its Social Security Funding Laws. In response to the pandemic in 2020, the ceiling increased, by decree, to €70 billion in March and €95 billion in July from €39 billion before. The increased ceiling has been extended through 2021 and was set at €65 billion in 2022.

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).
- Direct issuance of only short-term notes on the financial market via Negotiable European (NEU) CP and Euro CP programs. The envelope for each program has increased to €70 billion currently from €40 billion in 2019.

For 2021, ACOSS estimates NEU CP issuances mounted to €63.2 billion (28% of issuances) and Euro CP issuances €162.8 billion (72%), with an weighted average interest rate of negative 0.598%, and an average issuance amount of €64.1 billion. The stock of short-term bonds outstanding at end-2021 was €42.6 billion. As part of the pandemic financing plan, issuing policy has been further secured through over-borrowing, increased issue duration (CP issuance maturity is increased from pre-pandemic level of 30 days to almost 91 days in 2021), and order splitting.

ACOSS will continue to mainly resort to CP market issues to cover most of its financing needs in 2022 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, the agency creates a liquidity base with its Euro CP program (with the aim of 70% of issuances in 2022) and adjusts its liquidity needs with its NEU CP program (30% of issuances). The Russia-Ukraine conflict will mostly affect ACOSS through a likely rise in interest rates and increase in currency hedging costs from higher inflation. This will likely lead to reduced maturities. However, we do not expect this to affect demand for the agency's issuance given investors' tendency to shift toward safer assets during economic downturns (fight to quality). ACOSS benefits from its eligibility status for purchases under the public sector purchasing program of the European Central Bank. In addition, the agency aims at diversifying financing sources by issuing a bond with a social component.

ACOSS can also access the following financing if needed:

- The agency signed a convention with CDC, providing strong visibility and security regarding liquidity and funding. CDC could fund ACOSS with up to €11 billion annually and a special COVID-19 loan of €10 billion could also be granted if needed, as provided in 2020, thanks to CDC's commitment to buy NEU CPs issued by ACOSS.
- ACOSS has two back-up deposit accounts at Banque de France (currently at least €700 million) and CDC (currently not used).
- The agency has secured potential extra funding with its main banking partners, through large purchase of ACOSS NEU CPs by various commercial banks if needed. Therefore, exceptional funding from CDC and AFT should stay marginal this year.

ACOSS' cash management is based on two objectives: security and predictability. The agency has significantly increased the predictability of its cash inflows by securing hundreds of agreements with counterparties that specify the exact day of payment. It strictly monitors its cash outflows through IT systems that set the dates for drawings and is continuously developing systems of netting cash flows with partners, limiting intraday liquidity risk. The CP programs are multi-currency but the agency is not exposed to currency exchange risk because 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 the agency needs the actual funding and to over-issue, allowing for a more ample liquidity cushion. Since 2020, given the pandemic and 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 the agency to accumulate an extra precautionary liquidity buffer.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- France, Feb. 21, 2022
- Sovereign Risk Indicators, Dec. 13, 2021. Interactive version available at http://www.spratings.com/sri

Ratings Detail (as of April 13, 2022)*

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.