Accountability and enforcement

This section provides the requirements and technical guidance for both the accountability and enforcement principles for the sake of clarity and simplicity. In implementation, both principles are closely related.

The accountability and enforcement principles are intended to ensure that the assessment and disclosure of portfolio climate alignment under the Poseidon Principles is practical, fair, and accurate. The intent of this approach is to ensure the development of trust in the Poseidon Principles and amongst Signatories.

The Poseidon Principles use carbon intensity as the metric to measure climate alignment. In order for the Poseidon Principles to align with the IMO DCS, which is mandatory for all ships 5,000 gross tonnage and above and engaged on international trade, the Poseidon Principles rely specifically on AER as the carbon intensity metric.⁹

The Technical Guidance for the accountability and enforcement principles lays out the four steps in the Poseidon Principles' information flow process. At each step, the assessment and enforcement requirements are clearly identified.

⁹

The rationale for this decision is fully discussed in Section 2.1

3.1 Accountability

PRINCIPLE

We recognize the important role that classification societies and other IMO-ROs play in providing unbiased information in the industry and the mandatory regulations established by the IMO for the data collection system for fuel oil consumption from ships. We will rely on such entities and mandatory regulations as explicitly identified in the Technical Guidance for the provision of information used to assess and report on climate alignment.

REQUIREMENTS

For each step in the assessment of climate alignment, Signatories will rely exclusively on the data types, data sources, and service providers identified in the Technical Guidance.

3.2 Enforcement

PRINCIPLE

We will require that ongoing compliance with the Poseidon Principles is made contractual in our new Business Activities using standardized covenant clauses. We will contribute to the update and addition of standardized clauses through the annual review process.

REQUIREMENTS

Signatories will agree to work with clients and partners to covenant the provision of necessary information to calculate carbon intensity and climate alignment.



3.3 Requirements at each information flow step

This section is broken into four information flow steps. The intent of this section is to give appropriate background and clearly demonstrate how information flows between parties. Specific accountability requirements regarding data types, data sources, and service providers are stated at each step. The enforcement requirement of using a standardized covenant clause is referenced, but the clause itself is available from the Secretariat. The Poseidon Principles' information flow process relies on data that shipowners are required to report to be in compliance with the IMO DCS and accordingly be granted a SoC by the RO as discussed in Section 2.1. The IMO DCS requirements are separate to, and pre-date, the Poseidon Principles.

Figure 6 provides an overview of the potential information flow pathways. The pathways are divided into "preferred pathways" and "allowed pathways" tracks. Preferred pathways are those that rely on IMO-ROs to maintain data veracity and confidentiality.

For sake of clarity, once a Signatory has chosen either the preferred or allowed pathways track, it may choose any option available for that step. For example, if a Signatory chooses the allowed pathways track, it may choose to use any of the three available options for steps 2 and 3.



Figure 6.

Information flow pathway tracks

- Step 1 Sourcing vessel IMO DCS data
- Step 2 Calculating vessel carbon intensity and climate alignment
- Step 3 Calculating climate alignment of portfolio
- Step 4 Disclosure

3.3.1 Step 1: Sourcing vessel IMO DCS data



Step 1 requires the sourcing of IMO DCS data and SoC for the calculation of AER. It is permissible to source data from the RO upon the consent of the shipowner or directly from the shipowner. As Figure 7 indicates, sourcing data from an RO is preferable while sourcing data from the shipowner is allowed.

Figure 8 demonstrates how the Poseidon Principles interact with pre-existing requirements under the IMO DCS. Under IMO DCS requirements, the shipowner provides the specified data to the RO. The RO checks and verifies the data is in accordance with IMO regulation, issues a SoC to the shipowner and then submits the data to the IMO Ship Fuel Oil Consumption Database.



Note: In case of a change of vessel ownership partway through the reporting year, while this does not impact the metric in any way, it could limit access to data with regards to requesting information from clients. This case will be further explored this year to understand the scale of the issue with a resolution developed for reporting in 2021.

Figure 8.

Methods for sourcing vessel IMO DCS data

Permissible information flow methods:

Method 1 (preferred pathway): RO(s) provide data and SoC to Signatory Note that consent for the RO to share IMO DCS data with the Signatory can be given through the standard covenant clause.

Method 2 (allowed pathway): Shipowner(s) provide data and SoC to Signatory The Signatory requests the shipowner provide the data as submitted to the IMO DCS and the SoC. Signatories are advised to ask shipowners for data "as it was submitted to the IMO" to reduce risk of error.

Special guidance for transactions with multiple lenders:

Where there may be multiple lenders involved in one transaction, such as in a syndicated loan, it remains the responsibility of the Signatory to collect the appropriate information from an RO or the shipowner. However, it is both allowed and encouraged that Signatories should work to reduce administrative burden by collaborating where possible. For example, if multiple Signatories are sourcing data from a shipowner and or RO, it is in their interest and the interest of the shipowner or RO to coordinate their data requests.

How to meet the requirements:

- 1. IMO DCS data must be sourced from an RO or from the shipowner.
- 2. IMO DCS data may only be used if it is accompanied by an SoC provided by an RO.



3.3.2 Step 2: Calculating vessel carbon intensity and climate alignment



Step 2 requires the calculation of vessels' carbon intensity using the IMO DCS data and the calculation of vessels' alignment with decarbonization trajectories. There are three methods for undertaking these calculations. The first method is relevant only to the preferred pathways track, while the latter two are relevant to the allowed pathways track.

AER is used as the carbon intensity metric and is detailed in Section 2.1, and the IMO DCS data used for calculating AER is also detailed in Section 2.1. Standard decarbonization trajectories for each ship type and size class are produced specifically for the purposes of the Poseidon Principles so that all calculations are made in the same way.¹⁰ These are available through the Poseidon Principles Secretariat. Figure 10 demonstrates the necessary information, where to source it, and who can perform calculations.



Allowed Pathways Track



Methods for calculating carbon intensity and vessel climate alignment

¹⁰ See guidance in Section 2.4 and Appendix 3 for further clarification on the provision of trajectories.

Permissible methods for calculation

Method 1 (preferred pathway): RO calculates vessel carbon intensity and climate alignment on behalf of the Signatory.

- **1.** The RO will source the standard decarbonization trajectories from the Secretariat.
- **2.** The RO calculates vessel carbon intensity and climate alignment on behalf of the Signatory using the verified data from the IMO DCS.
- **3.** The RO provides the Signatory with the carbon intensity (AER) of the vessel(s) and the decarbonization delta for the vessel(s), the IMO DCS data, and the SoC.

Method 2 (allowed pathway): Signatory uses data provided by shipowner(s) to make vessel carbon intensity and climate alignment calculations internally.

1. Using the verified IMO DCS data as submitted to the flag state provided by the shipowner and the standard decarbonization trajectories, the Signatory calculates carbon intensity and climate alignment of the vessel(s).

Method 3 (allowed pathway): After receiving data from shipowners, Signatory outsources carbon intensity and climate alignment calculations to an RO or another third party.¹¹

- 1. After selecting an RO or another third party in accordance with accountability requirements below, the Signatory should send the verified IMO DCS data, SoC, and the standard decarbonization trajectories to that party.
- 2. The RO or other third party calculates vessel carbon intensity and climate alignment on behalf of the Signatory using the verified data from the IMO DCS.
- **3.** The RO or other third party provides the Signatory with the carbon intensity (AER) of the vessel(s) and the decarbonization delta for the vessel(s).

How to meet the requirements

- Vessel carbon intensity and climate alignment calculations must rely solely on verified IMO DCS data (i.e., data for which a SoC has been issued) and standard decarbonization trajectories provided by the Poseidon Principles Secretariat.
- Vessel carbon intensity and climate alignment calculations can be performed by Signatories, ROs, or other independent third parties (i.e. those that are not ROs).

¹¹ If a third party other than an R0 is used, that third party must be regarded as independent and have no shipbroking or commercial vessel interests.

3.3.3 Step 3: Calculating climate alignment of portfolio





Step 3 requires the calculation of portfolio climate alignment using the vessel climate alignment data from step 2 and Signatories' loan book data (i.e., debt outstanding). There are two methods for undertaking this calculation. Methods 1 and 2 are applicable in both the preferred pathways and allowed pathways tracks. This is due to the sensitivity of loan book data.¹²

Figure 12 demonstrates which data is necessary and who can perform the calculations.



Figure 12. Methods for calculating portfolio climate alignment

Permissible calculation methods

Method 1 (preferred and allowed pathways): Signatory performs portfolio climate alignment calculations internally.

1. Using vessel climate alignment data from step 2, Signatory undertakes climate alignment calculations internally.

Method 2 (preferred and allowed pathways): Signatory outsources portfolio climate alignment calculations to an RO or another independent third party.

- After selecting an R0 or another independent third party in accordance with accountability requirements below, the Signatory should send climate alignment and loan book data for all vessels within the scope of the Poseidon Principles to that party.
- 2. The RO or other independent third party calculates the Signatory's portfolio climate alignment using climate alignment and loan book data for all vessels within the scope of the Poseidon Principles.
- **3.** The RO or other independent third party provides the Signatory with its portfolio climate alignment score.

How to meet the requirements

- Vessel carbon intensity and climate alignment calculations must rely solely on verified IMO DCS data (i.e., data for which an SoC has been issued) and standard decarbonization trajectories provided by the Poseidon Principles Secretariat.
- **2.** Portfolio climate alignment calculation can be performed by Signatories, ROs, or other independent third parties (i.e., those that are not ROs).
- **3.** The Signatory should provide the following information to the Secretariat in line with the requirements identified in Section 4: Transparency.

3.3.4 Step 4: Disclosure



Step 4 establishes disclosure requirements that will serve as a quality control mechanism. The information outlined below will be submitted to the Secretariat and made available only to Signatories with the intent of informing the actions of the Steering Committee. Information submitted under these requirements will not be made public. This is intended to establish a quality control mechanism for Signatories while also ensuring that information that may be regarded as sensitive by some Signatories is not publicly disclosed. There is one method, which is applicable to both the preferred and allowed pathway tracks.



Figure 14. Method for disclosure Method (preferred and allowed pathways): Signatory prepares disclosures and submits to Secretariat.

- If the Signatory is unable to collect data for some portion of its portfolio, the Signatory should calculate the percentage of its eligible shipping portfolio for which it cannot report. When calculating this percentage, the Signatory should rely on the methodology outlined in Section 2.5.
- 2. The Signatory should calculate the percentages of its portfolio for which it used preferred and allowed pathway tracks. When calculating these percentages, the Signatory should rely on the methodology outlined in Section 2.5. The Signatory should also list the names of providers (i.e., RO or third party) it used, if any, to complete steps 1, 2, and 3 (i.e., those steps identified in Sections 3.3.1–3.3.3).
- **3.** The Signatory should provide the following information to the Secretariat: percentage of eligible shipping portfolio non-reporting, percentages of portfolio for which preferred and allowed pathway tracks were used, and a list the names of providers it used, if any, to complete steps 1, 2, and 3.

How to meet the requirements

The Signatory should provide the following information to the Secretariat in line with Transparency requirements identified in Section 4: percentage of eligible shipping portfolio non-reporting, percentages of the portfolio for which preferred and allowed pathway tracks were used, and a list the names of providers it used, if any, to complete steps 1, 2, and 3.

Example: Meeting disclosure requirements

In this example, a Signatory successfully completes the assessment of its portfolio climate alignment. In addition to reporting its portfolio climate alignment score to the Secretariat, it also reports the following information, which is demonstrated in Table 3 below: percentage of eligible shipping portfolio non-reporting, percentage of portfolio for which preferred and allowed pathway tracks were used, and a list the names of providers it used, if any, to complete steps 1, 2, and 3. The information in Table 3 is not made public by the Secretariat.

% Non-reporting	% of Portfolio for which Preferred Pathway Tracks Used	% of Portfolio for which Allowed Pathway Tracks Used
1%	90%	9%
Step	Providers Used	Providers Used
1	Used ROs - classification society X, classification society Y	N/A – data collected from shipowner
2	Used ROs - classification society X, classification society Y	N/A – made calculations internally
3	Used Third Party – company name Z	Used Third Party – company name Z

Note: % non-reporting refers to the % debt in a portfolio that is non-reporting, rather than the % of ships non-reporting

Table 3.

Example of disclosure requirement submission

33

3.4 Standard covenant clause

Key to supporting the accurate assessment of climate alignment and to creating an equal burden on all Signatories is an enforcement mechanism that ensures that the appropriate data and information are provided by shipowners to Signatories, the appropriate consents are given for the sharing of data, the data is shared, and appropriate privacy protections are established. This may include the sharing of data via a shared data platform or the data being provided by shipowners' commercial manager, depending on what is agreed between the shipowners and the Signatories.

To assist in the collection and sharing of data for the Poseidon Principles, there is a standard covenant clause. There is also a form of letter to be sent by Signatories to shipowners to request the data. The proforma clause and supporting definitions together with the form of letter are available from the Secretariat.

How to meet the requirements

In all new Business Activities that are finalized after a financial institution becomes a Signatory to the Poseidon Principles, the Signatory will use its best efforts to include the Definitions and Covenant wording set out in the covenant clause in the relevant documentation, amended, where necessary, to reflect the Signatory's proposed method of data collection.

