

HELPING PRACTICAL APPLICATION OF MATERIALITY IN THE PUBLIC SECTOR

IPSASB CAG Meeting – December 2025

Agustina Llambi, Principal

Karen Leung, Manager

New York, USA



AGENDA

1. Project Overview
2. Phase 2 – Materiality in IPSAS Standards
3. Phase 3 – Materiality in IPSASB SRS Standards

Making Materiality Judgments

The public sector

NEED

- **Guidance** on making materiality judgments when preparing GPFR
- Better **communicate** financial and sustainability information
- Present financial and sustainability information that is **useful for accountability and decision-making purposes**

The current

ENVIRONMENT



- **Updated** IPSASB Conceptual Framework
- **Evolution of global reporting landscape** not reflected in IPSAS and IPSASB's literature (e.g., Amendments to IFRS and Practice Statement 2)

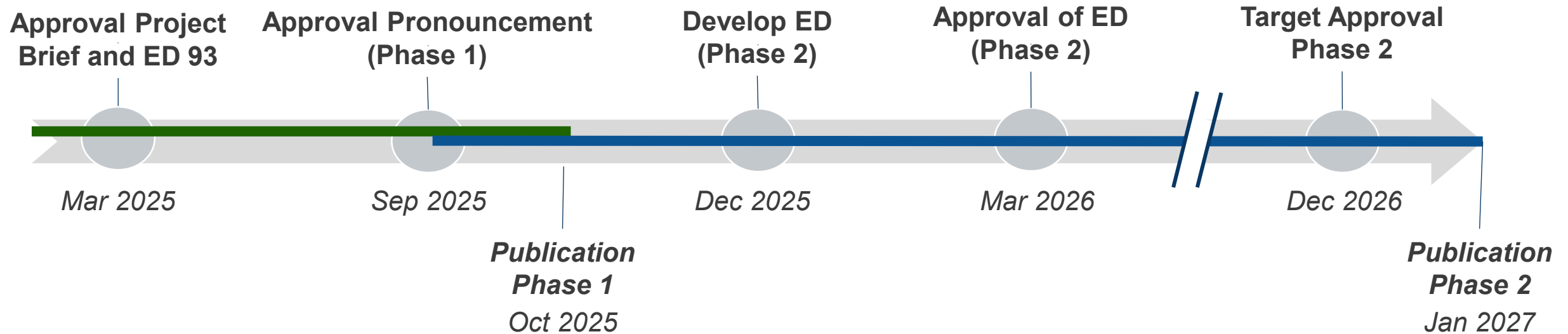
The project

OBJECTIVE

- **Align the definition of materiality** across the IPSASB financial reporting guidance (Phase 1)
- **Help public sector entities make materiality judgments to present relevant financial and sustainability reporting information** for accountability and decision-making purposes (Phase 2 and Phase 3, respectively)



Making Materiality Judgments Project Overview



Phase 1. Review consistency of the definition of 'material' between the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ('Conceptual Framework') and IPSAS Standards and propose changes to achieve this

Phase 2. Materiality in IPSAS Standards: Development of non-authoritative guidance aligned with IFRS Practice Statement 2: Making Materiality Judgements ('Practice Statement 2')

Phase 3. Materiality in IPSASB SRS Standards: Development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS Standards

PHASE 2 – MATERIALITY IN IPSAS STANDARDS

Overview of Practice Statement 2 and Adaptations

- **What is IFRS® Practice Statement 2 *Making Materiality Judgements* (PS 2)?**
 - It is a stand-alone document that provides non-mandatory guidance on making materiality judgements when preparing financial statements in accordance with IFRS.
 - Entities are not required to comply with PS 2 to state compliance with IFRS Standards.
- **Why did IASB issue this guidance?**
 - To address the disclosure problem—companies provide too much irrelevant information and not enough relevant information in their financial statements.
 - Rather than using judgment to decide what information to provide in financial statements, some entities use disclosure requirements in IFRS Standards as if they were items on a checklist.
- **The following National Standard Setters (NSS) have adapted PS 2:**
 - AASB (Australia), ASB (South Africa), and SB FRS (Singapore).

Practice Statement 2 Guidance

- Provides an overview of general characteristics of materiality:
 - Definition
 - Pervasiveness
 - Judgements
 - Primary users and their information needs
 - Impact of publicly available information
- Presents a four-step process that an entity may follow in making materiality judgments when preparing its financial statements (slide 8)
- Provides guidance on how to make materiality judgments in specific circumstances.

The Materiality Process – Four Step Process



IPSASB Process to Adapt Examples in PS2

Adaptations are made for:

- Consistency with the *Conceptual Framework*; and
- IPSAS Accounting Standards.

Examples are:

- Revised to the public sector context;
- Added to illustrate public sector scenarios; and
- Deleted when inapplicable to the public sector.

Each example in PS2:

- Presents a situation with a specific fact pattern; and
- Provides analysis on the application of the concept of materiality when preparing financial statements.

Example – Recognition (Adapted to Public Sector)

Step 1 Identify

Background - A public sector entity has a policy of capitalizing expenditures on items of property, plant and equipment (PP&E) in excess of a specified threshold and recognizing any smaller amounts as an expense.

Step 1 Identify

IPSAS Requirements – IPSAS 45 Property, Plant and Equipment requires that the cost of an item of PP&E is recognized as an asset when the criteria in paragraph 6 of IPSAS 45 are met.

Step 2 Assess

Application - The entity public sector **has assessed that its accounting policy**—not capitalizing expenditure below a specific threshold—**will not have a material effect on the current-period financial statements or on future financial statements**, because information reflecting the capitalization and amortization of such expenditure could not reasonably be expected to influence decisions made by the primary users of the entity's financial statements.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, **the entity's financial statements comply with IPSAS 45**. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Phase 2 – Materiality in IPSAS Standards

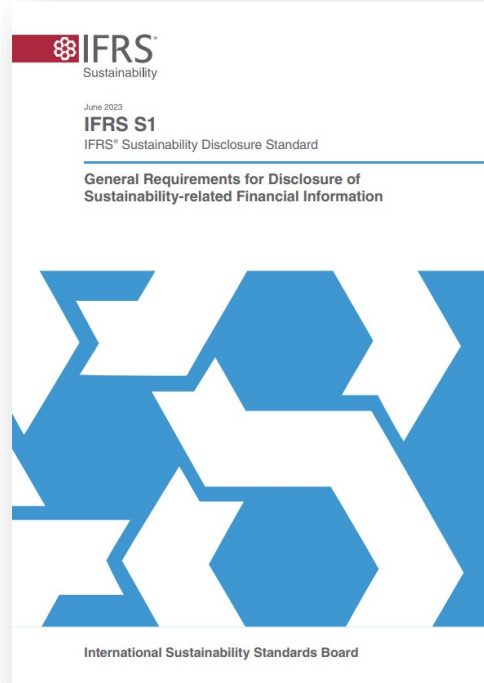
Question for CAG Members

- From your perspective/the perspective of your jurisdiction, please share examples of specific IPSAS principles where entities have difficulty applying the concept of materiality (see paragraph 5(a)) when preparing financial statements, such as:
 - Identification of primary users;
 - Primary users' information needs; and
 - Recognition and measurement requirements in IPSAS Standards.

Please share specific examples and discuss how the IPSASB should approach developing such examples to facilitate the practical application of the concept of materiality in financial reporting.

PHASE 3 – MATERIALITY IN IPSASB SRS STANDARDS

Materiality in IFRS S1 and IFRS S2

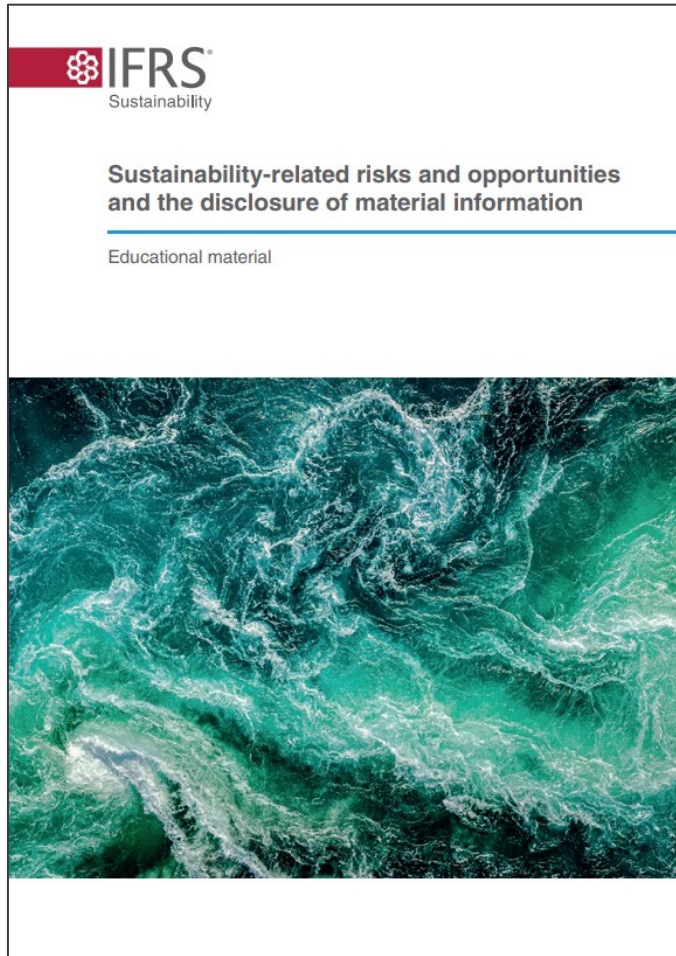


IFRS S1 introduced the definition and application of 'materiality' in the context of sustainability-related financial disclosures

This underpins the application of **IFRS S1** and **IFRS S2**



Overview of ISSB Educational Material

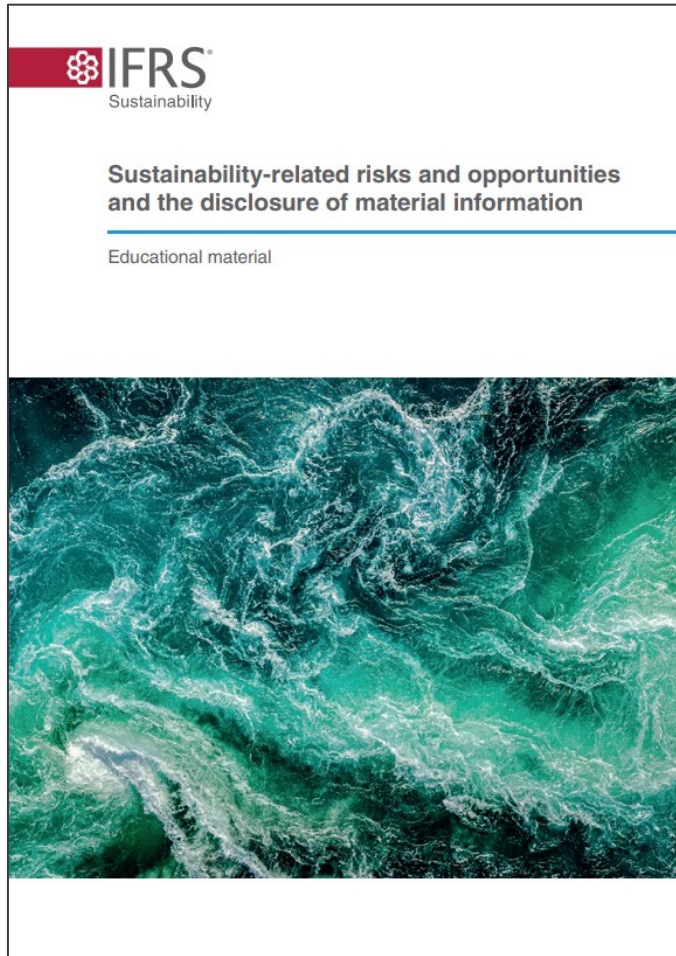


- Stakeholders to draft IFRS S1 held mixed views on whether the definition of materiality was clear in the context of sustainability-related financial disclosures.
- In its feedback statement to the draft IFRS S1, the ISSB committed to provide additional guidance through educational material.

What is the ISSB's Educational Material on *Sustainability-related risks and opportunities, and the disclosure of material information*?

- The document was developed by ISSB staff with Board member involvement and published in November 2024.
- It is a standalone document developed to aid stakeholders' understanding of the ISSB Standards. It is educational in nature, and is not part of the ISSB Standards.
- This guide sets out key considerations on material information to support the implementation of ISSB Standards around the world.

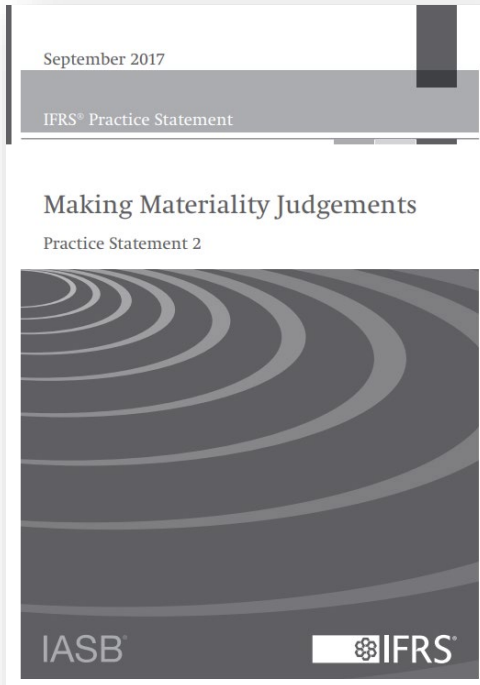
Overview of ISSB Educational Material



Structured into three chapters and appendices:

- Chapter 1—The definition of material information and its application in ISSB Standards
- Chapter 2—Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in ISSB Standards
- Chapter 3—Identifying and disclosing material information
- Appendix A—Using IFRS S2 to identify climate-related risks and opportunities
- Appendix B—Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain
- Appendix C—Interaction of ISSB Standards with law or regulation

Ch.1 Definition of 'Material Information'



**Aligned definitions of
'material information'**



Focuses on information reasonably
expected to influence primary
users' decision-making

Targets primary users of GPFRs

Emphasizes that materiality
is entity-specific



Ch.2 Sustainability-related Risks and Opportunities

Sequential concept in considering sustainability-related risks and opportunities:

The value chain

Example of guidance provided in the Educational Material:

Example – Sustainability-related risks and opportunities faced by business partners in an entity's value chain

Resources and relationships

Example – Groups of resources and relationships, including those internal (e.g. an entity's workforce) and external (e.g. with customers)

Dependencies and impacts

Example – Scenario where a sustainability-related opportunity arises from its dependency and relationship

Sustainability-related risks and opportunities that could reasonably be expected to affect prospects

Example – How an entity may refer to sources of guidance, such as disclosure topics in the SASB Standards

Ch.3 The Materiality Process – Four Step Process

Step

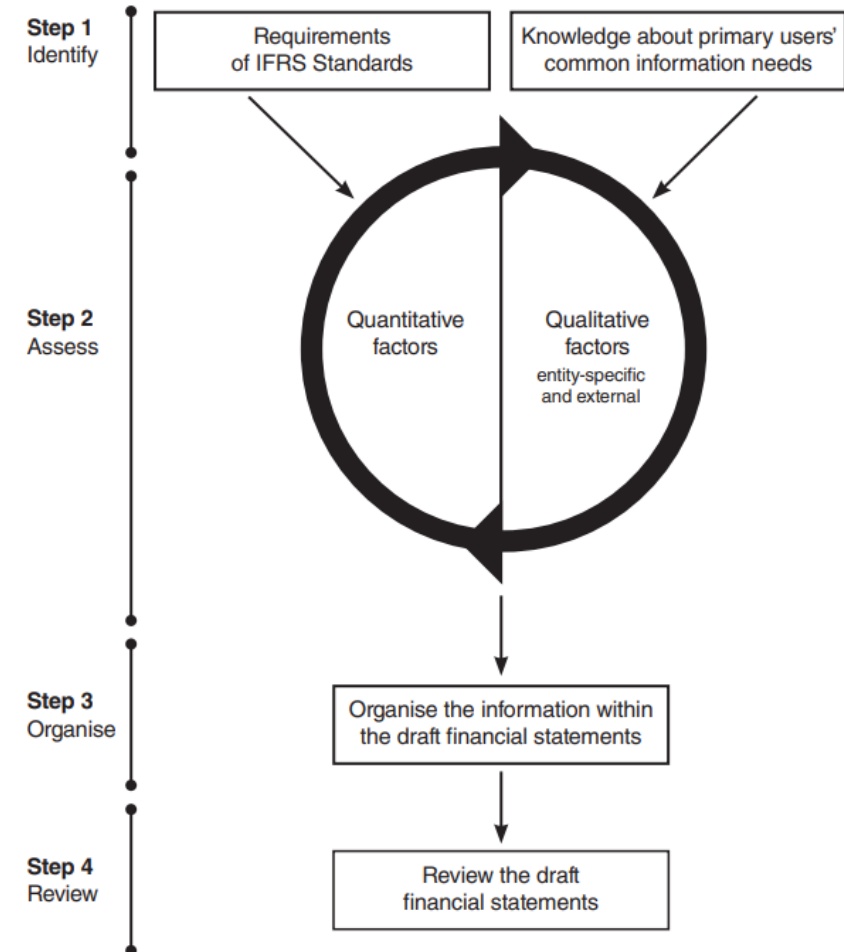
1. **Identify** information about sustainability-related risks and opportunities with potential to be material

2. **Assess** whether the potentially material information identified in Step One is, in fact, material

3. **Organize** the information within the draft sustainability-related financial disclosures

4. **Review** the draft sustainability-related financial disclosures

IFRS Practice Statement 2: Making Materiality Judgements



Ch.3 The Materiality Process – Four Step Process

Step	Output
1. Identify information about sustainability-related risks and opportunities with potential to be material	A set of potentially material information
2. Assess whether the potentially material information identified in Step One is, in fact, material	A preliminary set of material information
3. Organize the information within the draft sustainability-related financial disclosures	Draft sustainability-related financial disclosures
4. Review the draft sustainability-related financial disclosures	Final sustainability-related financial disclosures

Ch.3 The Materiality Process – Four Step Process

Step	Further Guidance Includes
1. Identify information about sustainability-related risks and opportunities with potential to be material	Process diagram for applying IFRS S1 for all sustainability-related risks and opportunities
2. Assess whether the potentially material information identified in Step One is, in fact, material	Considering entity-specific and external qualitative factors, assessing possible future events based on probability and impact
3. Organize the information within the draft sustainability-related financial disclosures	Circumstances that might result in material information being obscured
4. Review the draft sustainability-related financial disclosures	Process in which an entity ‘steps back’ and considers its sustainability-related financial disclosures as a whole

Connectivity and Interoperability Considerations

Connectivity considerations and **interoperability considerations** are provided across chapters for preparers to consider materiality in ISSB Standards in the context of connectivity with financial statements and interoperability with other standards:

Connectivity Considerations

- Particularly for preparers with a financial reporting background who are applying ISSB Standards
- Aligned definitions of ‘material information’ with IFRS Standards
- Similar ‘four-step materiality process’ to IFRS Practice Statement 2 *Making Materiality Judgements*

Interoperability Considerations

- For preparers applying ISSB Standards alongside the European Sustainability Reporting Standards (ESRS) and Global Reporting Initiative (GRI) Standards
- Interpreting “material information” in ISSB Standards in the context of ESRS and GRI Standards

Phase 3 – Materiality in IPSASB SRS Standards

Question for CAG Members

- Drawing on your experience/experience in your jurisdiction, do CAG members have examples of how materiality is currently applied in the context of sustainability-related financial disclosures? From your perspective, what insights could help inform the IPSASB in developing guidance for the public sector?

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