

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** New York, USA

**Meeting Date:** December 1, 2025

## Agenda Item

# 5

For:

☐ Approval

☒ Discussion

☐ Information

## MAKING MATERIALITY JUDGMENTS

<b>Project summary</b>	The objective of the <i>Making Materiality Judgments</i> project is to develop guidance to help entities make materiality judgments when preparing general-purpose financial reports.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion Items</b>	<a href="#">Practical Application of Materiality in the Public Sector</a>	<a href="#">5.1</a>
<b>Other Supporting Items</b>	<a href="#">Supporting Document 1 – Making Materiality Judgments Project Brief</a>	<a href="#">Posted separately</a>
	<a href="#">Supporting Document 2 – IFRS® Practice Statement 2: <i>Making Materiality Judgements</i></a>	<a href="#">5.2</a>
	<a href="#">Supporting Document 3 - <i>Sustainability-related risks and opportunities, and the disclosure of material information</i></a>	<a href="#">5.3</a>
	<a href="#">Supporting Document 4 – <i>Making Materiality Judgments</i> (Phase 1) Due Process Checklist</a>	<a href="#">5.4</a>

*Prepared by:* Agustina Llambi and Karen Leung (November 2025)

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## **Practical Application of Materiality in the Public Sector**

### **Project Background**

1. During the [2021 Mid-Period Work Program Consultation](#), the IPSAS received feedback highlighting that some entities have difficulties making materiality judgments and tend to use disclosure requirements in IPSAS Standards as a checklist, rather than applying judgment on what information is material and should be included in the general-purpose financial statements (GPFS). As a result, in May 2022, the IPSASB agreed to add the *Making Materiality Judgments* project ('project') as a pre-commitment project to the IPSASB's Work Program to be undertaken once resources became available<sup>1</sup>.
2. In March 2025, the IPSASB approved the project's brief, *Making Materiality Judgments*, with the following project scope to be undertaken sequentially:
  - (a) **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;
  - (b) **Phase 2—Materiality in IPSAS Standards:** Development of non-authoritative guidance aligned with IFRS® Practice Statement 2: *Making Materiality Judgments* ('Practice Statement 2'); and
  - (c) **Phase 3—Materiality in IPSASB SRS Standards:** Development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS Standards.
3. In March 2025, the IPSASB also approved the exposure draft related to Phase 1 of the project. was exposed for a 60-day comment period. This ED proposed to:
  - (a) Clarify that decisions about materiality are intended to reflect the information needs of the primary users of general-purpose financial reports instead of all users; and
  - (b) Align the definition of material in IPSAS 1, *Presentation of Financial Statements*, with Chapter 3 of the Conceptual Framework on Qualitative Characteristics, bringing consistency to materiality guidance across IPSAS Standards.
4. In September 2025, the IPSASB:
  - (a) Approved the [Definition of Material \(Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework\)](#) after receiving strong stakeholder support for ED 93 proposals, which was published in October 2025; and
  - (b) Decided Phase 3 will be run in parallel with Phase 2, developing non-authoritative guidance drawing from ISSB education material, *Sustainability-related risks and opportunities, and the disclosure of material information*.

### **Phase 2 – Materiality in IPSAS Standards**

5. Following the publication of the pronouncement, *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) in October 2025, the IPSASB now has a consistent

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<sup>1</sup> See [Mid-Period Work Program Consultation Summary.pdf](#)

definition of material across the IPSAS Standards and can begin Phase 2 of the project. The definition of material for making materiality judgments is:

- (a) Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.<sup>2</sup>
6. Phase 2 scope involves developing non-authoritative guidance on making materiality judgments, based on the definition of material above, when preparing financial statements for the public sector by adapting Practice Statement 2 (see [Supporting Document 2](#)). This guidance aims to efficiently and promptly address constituents' need for additional non-authoritative guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards.

*What is Practice Statement 2?*

- 7. The IASB issued Practice Statement 2 in September 2017 and was applicable immediately. Practice Statement 2 was issued to support stakeholders' in making materiality judgments instead of using disclosure requirements in IFRS Standards as a checklist, rather than applying judgment when deciding what information to provide in financial statements.
- 8. Practice Statement 2 provides non-mandatory guidance to reporting entities on how to make materiality judgments when preparing general purpose financial statements in accordance with IFRS Standards. It aims to assist entities in making materiality judgments when preparing general purpose financial statements. Because it provides non-mandatory guidance, its application is not required to state compliance with IFRS Standards.
- 9. Specifically, Practice Statement 2:
  - (a) Provides an overview of general characteristics of materiality.
  - (b) Presents a four-step process an entity may follow in making materiality judgments when preparing its financial statements.
  - (c) Provides guidance on how to make materiality judgments in specific circumstances: prior-period information, errors and covenants, materiality judgments for interim reporting, and information about accounting policies.
- 10. The Practice Statement includes examples illustrating how an entity might apply some of the guidance in it when making materiality judgments about recognition, measurement, presentation, and disclosure requirements in IFRS Standards. Each example:
  - (a) Presents a situation with a specific fact pattern; and
  - (b) Provides analysis<sup>3</sup> on the application of the concept of materiality when preparing financial statements.

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2 Paragraph 3.32 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework) as amended by Final Pronouncement, Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued on October 2025.

3 The analysis in each example is not intended to represent the only manner in which the guidance could be applied

11. The following example in Practice Statement 2 illustrates the application of the concept of materiality, specifically that requirements in IFRS Standards only need to be applied if their effect is material to the complete set of financial statements.

***Example A—materiality judgments on the application of accounting policies***

**Background**

An 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.

**Application**

IAS 16 *Property, Plant and Equipment* requires that the cost of an item of PP&E is recognized as an asset when the criteria in paragraph 7 of IAS 16 are met.

The entity 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 IAS 16. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

***Development of Public Sector Guidance Aligned to Practice Statement 2***

12. Phase 2 is an IFRS alignment project (narrow scope project) and will make use of the IPSASB's policy paper, [Process for Reviewing and Adapting IASB Documents](#) ('Policy Process paper') to guide the development of public sector adaptations to Practice Statement 2.
13. One of the adaptations needed for the guidance in Practice Statement 2 is the adaptation of examples to fit the public sector context. The Policy Process paper notes that additional public sector examples may need to be added, and clearly inappropriate or inapplicable examples to the public sector should be deleted<sup>4</sup> when adapting an IASB document.
14. The majority of the examples in Practice Statement 2 are relevant to the public sector, except for a few cases that need major revisions to ensure their relevance. (See [Appendix A](#) for specific details) To facilitate the adaptation of examples to the public sector context, staff identified adaptations of Practice Statement 2 by National Standard Setters<sup>5</sup>. Among those identified, staff notes that the adaptation by the Accounting Standard Board of South Africa ('ASB') is the most relevant to the IPSASB, as the ASB definition of material closely aligns with the Conceptual Framework, and the description of primary users<sup>6</sup> also aligns with the Conceptual Framework. Thus, staff has leverage from the public sector adaptation of examples in ASB's [Guideline on the Application of Materiality to Financial Statements](#) when adapting Practice Statement 2 examples.

<sup>4</sup> See paragraph 16 (f) in IPSASB's policy paper, *Process for Reviewing and Adapting IASB Documents*

<sup>5</sup> The following NSS have developed aligned guidance to Practice Statement 2: Accounting Standards Board of South Africa, Australian Accounting Standards Board, and Statutory Board Financial Reporting Standard Practice Statement of Singapore.

<sup>6</sup> ASB describes primary users as 'service recipients and their representatives, and resource providers and their representatives'.

15. Additionally, the IPSASB is considering the need for additional examples on the application of materiality when making materiality judgments on recognition and measurement principles in IPSAS Standards. [Appendix A](#) shows that the majority of examples in Practice Statement 2 relate to making materiality judgments on presentation and disclosures principles in IFRS Standards.
16. The CAG offers a broad perspective representative of many of the IPSASB's stakeholders. In determining which additional public sector-specific examples would be of the most benefit to stakeholders, the IPSASB is seeking CAG members' advice on what challenges stakeholders in your perspective and jurisdiction are encountering when applying materiality in practice. The IPSASB will consider these challenges when developing examples for Phase II of the project.

**Question for CAG Members:**

**Question 1 – 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<sup>7</sup>;
- Primary users' information needs; and
- Recognition and measurement requirements in IPSAS Standards.

**Please come prepared to 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

#### *Definition of Material Information in IPSASB SRS [1], Climate-related Disclosures*

17. In June 2025, the IPSASB decided that the materiality definition in the IPSASB SRS [1], *Climate-related Disclosures*, should be aligned with that of the Conceptual Framework. Accordingly, in the context of climate-related disclosures, material information is information that, if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial reports prepared for that reporting period.
18. The materiality definition applied in sustainability reporting, in paragraph 17 above is consistent with the definition used in financial reporting (see paragraph 6), and was informed by the IPSASB's deliberations and stakeholder feedback on IPSASB SRS ED 1. The key discussions and activities that shaped the Board's decision include:
  - (a) **October 2023 – Education Session on Materiality in Sustainability Reporting:** The Board held an Education Session featuring presentations from the ISSB, Global Reporting Initiative (GRI), and the European Financial Reporting Advisory Group (EFRAG), which provided an overview of their respective approaches to materiality. This was followed by a "Materiality in Practice" session, where external speakers with practical experience were invited to share insights on the application of materiality in sustainability reporting;

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7 Primary users in the context of the public sector are service recipients and their representatives, and resource providers and their representatives.

- (b) **December 2023 – Board Discussion on Materiality in Sustainability:** The Board discussed the materiality approaches from across the sustainability landscape, informed by the Education Session held in October 2023. At the time, a main message to the IPSASB was that the focus of materiality should be on public sector users and that this approach would require professional judgement, given it is highly entity specific;
  - (c) **June 2025 – Review of Constituent Feedback on Materiality:** The Board noted that in response to the materiality definition in the ED, constituents made diverse interpretations in relation to various materiality labels, such as “financial”, “double”, and “impact”, which exist outside of IPSASB literature. The IPSASB noted that the issues raised by respondents to the proposed materiality definition had already been considered extensively by the IPSASB during the development of the ED, prior to its decision to align the materiality definition with the Conceptual Framework, and did not identify any new substantive or appropriate alternatives were offered by respondents on materiality; and
  - (d) **August 2025 – Materiality Discussion with the SIF:** The IPSASB Sustainability Implementation Forum (SIF) discussions indicated that most public sector entities are at an early stage in applying materiality to sustainability disclosures. SIF members noted challenges in applying materiality across a broad range of primary users, and emphasized the importance of implementation support.
19. In deciding to align the materiality definition with that of the Conceptual Framework, the IPSASB acknowledged the need for further guidance in relation to the practical application of materiality in view of the diverse interpretations. At the same time, the Board recognized the importance of continuing to build on the ISSB’s approach, and the need to prioritize the timely finalization of IPSASB SRS [1], *Climate-related Disclosures*.
20. To support stakeholders in applying the materiality concept in IPSASB SRS [1], in September 2025, the IPSASB decided to accelerate the start of Phase 3 of the Making Materiality Judgments project. This phase would focus on adapting existing ISSB education material, as detailed in paragraphs 22–24 below, to develop non-authoritative guidance that will support public sector users with the application of the materiality definition.
21. Following this decision, a small working group comprising Board members and technical advisors was established to undertake a detailed review of the ISSB educational material and identify areas requiring adaptation for the public sector context.

*ISSB Educational Material, Sustainability-related risks and opportunities and the disclosure of material information*

22. Since issuing the IFRS S1 *General requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2) Standards in June 2023, the ISSB prioritized the development of educational material to support stakeholders with understanding the Standards. In November 2024, the ISSB published educational material titled *Sustainability-related risks and opportunities and the disclosure of material information* (see [Supporting Document 3](#)).
23. This educational material sets out a process closely aligned with IFRS Practice Statement 2, which forms the basis for Phase 2 of the IPSASB’s *Making Materiality Judgments* project. The publication provides stakeholders with additional information on the definition of material information,

sustainability-related risks and opportunities, and identifying and disclosing material information, and includes:

- (a) **Connectivity considerations** – Considerations that support understanding the connectivity between sustainability-related financial information and an entity's financial statements, specifically between the IFRS Sustainability Disclosure Standards and IFRS Accounting Standards;
  - (b) **Interoperability considerations** – Considerations that might be helpful for entities that apply the ISSB Standards alongside the European Sustainability Reporting Standards (ESRS) and GRI Standards; and
  - (c) **Examples** – Practical examples to support entities in making their own judgment in relation to the specific disclosure requirements in IFRS S1 and IFRS S2, including the application of “value chain” and “sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects”.
24. As part of the connectivity considerations to support understanding between sustainability-related financial disclosures and financial statements, the educational material:
- (a) Outlines a four-step process which an entity might follow to identify and disclose material information about sustainability-related risks and opportunities, similar to the “four-step process” presented in IFRS Practice Statement 2 (see paragraph 9(b));
  - (b) Highlights the aligned definitions of “material information” across IFRS Standards but also notes that the materiality judgments made in preparing sustainability-related financial disclosures will be distinct from those made in preparing the related financial statements.

#### *Next Steps*

- 25. The ISSB educational material on *Sustainability-related risks and opportunities and the disclosure of material information* was developed through a staff-led process, with review and input from some Board members.
- 26. Phase 3 of Making Materiality Judgments is expected to draw on Phase 2, to parallel the connectivity between the ISSB educational material and IFRS Practice Statement 2. While both phases aim to support the application of the materiality definition, the development of each phase will align with the respective approach taken by the IASB/IFRS that appropriately reflects the maturity of each topic.
- 27. Accordingly, staff expect a similar approach to be adopted by the IPSASB in developing non-authoritative guidance for Phase 3, with appropriate engagement from Board members and regular staff updates on the progress of the project.
- 28. Preparations for Phase 3 are currently in progress, with the first meeting of the working group scheduled for late November 2025. Given that the CAG offers a broad perspective representative of many of the IPSASB's stakeholders, insights from this discussion will help guide staff in developing Phase 3 of the project and will be brought to the working group for further consideration. The resulting non-authoritative guidance is expected to continue to support the IPSASB's work as it develops its suite of IPSASB SRS Standards.

**Question for CAG Members:**

**Question 2 – 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?**

**Appendix A– Summary of Examples in Practice Statement 2**

1. Practice Statement 2 includes 20 examples illustrating how an entity might apply some of the guidance in it when making materiality judgments about recognition, measurement, presentation, and disclosure requirements in IFRS Standards. The examples apply to one or more topics of Practice Statement 2, discussed in paragraph 9, and can be grouped as follows:

Topics	#	Topics	#
<b>Recognition and measurement</b>	1		
<b>Presentation and disclosure</b>	2		
<b>Disclosure</b>	9		
<b>Other</b>	13		
• Primary Users	2	• Information about covenants	1
• Publicly available information	1	• Interim reporting	2
• Interaction with local laws	3	• Accounting policies	2
• Prior period errors	2		

2. This table provides:
  - (a) A summary of the examples included in Practice Statement 2 (see [Supporting Document 2](#) for the complete examples) and staff analysis whether the example is relevant to the public sector.
  - (b) Staff analysis on whether examples are relevant to the public sector is based on the level of modifications needed, see below:
    - (i) **Editorial in nature**, the revisions may include changes to public sector terminology and replacing the IFRS Standard with the aligned IPSAS Standard.
    - (ii) **Adaptation**, the revisions include editorial changes noted above, as well as changes to the fact pattern to improve the relevance of the example to the public sector context.
    - (iii) **Deletion**, It is based on IFRS guidance, for which aligned guidance in the IPSAS Standard does not exist. There is no IPSAS Standard aligned with the IFRS Standard (e.g., IAS 34), or it pertains to an existing project in the IPSASB's Work Program that the IPSASB has not yet reviewed for inclusion in the relevant IPSAS Standard.

#	Practice Statement 2 Examples	Staff Analysis
1	Example A—materiality judgments on the application of accounting policies	<b>Editorial.</b>
2	Example B—materiality judgments on disclosures specified by IFRS Standards	<b>Editorial.</b>
3	Example C—materiality judgments that lead to the disclosure of information in addition to the specific disclosure requirements in IFRS Standards	<b>Editorial.</b>

4	Example D—existing and potential investors, lenders, and other creditors	<b>Adaptation.</b> Primary users of the public sector differ from those of the private sector.  The example discusses an entity that needs to consider the information needs of both its existing and potential investors, lenders, and other creditors. The description of primary users in the CF only discusses existing service recipients and their representatives, as well as resource providers and their representatives.
5	Example E—primary users' unique or individual information requests	<b>Adaptation.</b> Primary users of the public sector differ from those of the private sector.  The example discusses unique information needs of an investor that are not common to other investors.
6	Example F—impact of an entity's press release on materiality judgments	<b>Editorial.</b>
7	Example G—information that is immaterial according to IFRS Standards required by local laws and regulations	<b>Adaptation.</b>
8	Example H—information that is material according to IFRS Standards not required by local laws and regulations	<b>Adaptation.</b>
9	Example I—information about a related party transaction assessed as material	<b>Adaptation.</b>
10	Example J—information about a related party transaction assessed as immaterial	<b>Editorial.</b>
11	Example K—influence of external qualitative factors on materiality judgments	<b>Editorial.</b>
12	Example L—prior-period information not previously provided	<b>Editorial.</b>
13	Example M—summarising prior-period information	<b>Editorial.</b>
14	Example N—individual and collective assessment of errors	<b>Editorial.</b>
15	Example O—current-period assessment of cumulative errors	<b>Editorial.</b>

16	Example P—assessing whether information about covenants is material	<b>Adaptation.</b>
17	Example Q—information that is expected to be material to the annual financial statements	<b>Deletion.</b> These examples illustrate the application of the definition of material to principles in IAS 34 <i>Interim Financial Reporting</i> . Currently, there is no IPSAS Standard aligned with IAS 34.
18	Example R—information that is only material to the interim financial report	
19	Example S—making materiality judgments and focusing on entity-specific information while avoiding standardized (boilerplate) accounting policy information.	<b>Deletion.</b> IPSAS 1 does not have aligned guidance. These examples illustrate the application of the definition of material on principles in the <i>Disclosure of Accounting Policies</i> (Amendments to IAS 1 and IFRS Practice Statement 2) (Consequential amendments), issued by the IASB in February 2021. These pronouncement amendments are in scope of the IPSASB <i>Presentation of Financial Statements</i> project. This is an active project in the IPSASB's Work Program, currently developing a Consultation Paper.
20	Example T—making materiality judgments on accounting policy information that only duplicates requirements in IFRS Standards.	

**Supporting Document 2 – IFRS Practice Statement 2: *Making Materiality Judgements***

1. IFRS Practice Statement 2: *Making Materiality Judgements* referenced in [Agenda Item 5.2](#), is posted separately for easier readability.

**Supporting Document 3 – ISSB Educational Material on Materiality**

1. The ISSB's educational material on *Sustainability-related risks and opportunities, and the disclosure of material information* referenced in [Agenda Item 5.3](#), is posted separately for easier readability.

**Support Document 4 – *Making Materiality Judgments* (Phase 1) Due Process Checklist**

1. [Making Materiality Judgments \(Phase 1\) Due Process Checklist](#) is posted separately for easier readability.