Note: The table below provides further examples illustrating the application of the closely related criteira to derivative instruments embedded in hybrid instruments. Specifically, each example (1) provides a brief discussion of the terms of an instrument that contains an embedded derivative and (2) analyzes the instrument (as of the date of inception) to determine whether the embedded derivative is closely related to the host contract. Unless otherwise stated, the examples are based on the assumption (1) that if the embedded derivative is not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a standalone derivative and (2) that the hybrid contract as a whole is not remeasured at fair value with changes in fair value included in earnings.

As the embedded deriviative guidance in IFRS 9 is not relevant to financial assets, the treament set out below is for the issuer of the financial instrument. The accounting by the holder is not considered.

Type of instrument	Economic characteristics	Embedded derivative	Closely related	Explanation
Convertible debt	An investor receives a below-market interest rate and receives the option to convert its debt instrument into the equity of the issuer at an established conversion rate. The terms of the conversion require that the issuer deliver shares to the investor in return for redeeming the debt.	Call option	N/A	N/A (A separate contract with the same terms would be excluded from the scope of IFRS 9 as the written call is an equity instrument in accordance with IAS 32).
Short-Term Loan with a Foreign Currency Option	A U.S. lender issues a loan at an above-market interest rate. The loan is made in U.S. dollars, the borrower's functional currency, and the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency.	Foreign currency option	NO	The option to pay scheduled amounts in an alternative foreign currency has value to the buyer of the option which is paid for via an above-market interest rate.
Crude Oil Knock-in Note	A bond that has a 1% coupon and guarantees repayment of principal with upside potential based on the strength of the oil market	Option contract	NO	Underlying is linked to a commodity index that is not closely related to the debt host contract.
Gold-linked Bull Note	A bond that has a fixed 3% coupon and guarantees repayment of principal with upside potential if the price of gold increases	Option contract	NO	Underlying is linked to a commodity index that is not closely related to the debt host contract.
Dual Currency Bond	A bond providing for repayment of principal in one currency (e.g. Euro) and periodic interest payments denominated in a different currency (e.g. Yen). In this example, an entity with the Euro as its functional currency is borrowing funds from an independent party with those repayment terms	Foreign currency forward	YES	Subject to the requirements of IAS 21
Inflation Bond	A bond with a contractual principal amount that is indexed to the non-leveraged inflation rate of the economy of the issuer. The denomination of the debt is the functional currency of the issuer. Deflation never results in the issuer not repaying principal.	Conditional exchange contract or option	YES	Provided the underlying is linked to inflation of the economy of the issuer and the inflation rate applied in the bond is not leveraged, and is the inflation rate of the economic environment for the currency in which the bond is denominated and would not result in the investor failing to recover substantially all of its initial recorded investment, then the embedded derivative is closely related.

Step-up Bond	A bond that provides an introductory above-market yield that is less than twice the market rate at inception and steps up to a new coupon, which will be below then-current market rates or, alternatively, the bond may be called in lieu of the step-up in the coupon rate.	Call option and changing interest rate feature	YES	Underlying is linked to interest rates and (a) does not result in the investor's failing to recover substantially all of its initial recorded investment in the bond, and (b) appears to be no possibility of increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract.
Fixed-to-Floating Note	A bond that pays a varying coupon (first-year coupon is fixed, second- and third-year coupons are based on LIBOR).	Forward-starting interest rate swap	YES	Underlying is linked to interest rates, credit, or inflation and (a) does not result in the investor's failing to recover substantially all of its initial recorded investment in the bond, and (b) appears to be no possibility of increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract.
Indexed Amortising Note	A bond that repays principal based on a predetermined amortisation schedule or target value. The amortisation is linked to changes in a specific mortgage-backed security index or interest rate index. The maturity of the bond changes as the related index changes.	Conditional exchange option that requires partial or early payment of the note	YES	Underlying is linked to interest rates and (a) does not result in the investor's failing to recover substantially all of its initial recorded investment in the bond, and (b) appears to be no possibility of increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract.
Equity-indexed Note	A bond for which the return of interest, principal, or both is tied to a specified equity security not of the issuer or index (e.g. the Standard and Poor's 500 index). This instrument may contain a fixed or varying coupon rate and may place all or a portion of principal at risk.	Forward exchange contracts or option contracts	NO	Underlying is linked to equity index and could result in the investor's failing to recover substantially all of its initial recorded investment in the bond.
Variable Principal Redemption Bond	Bond: A supplemental principal payment will be paid to the investor, at maturity, if the final Standard & Poor's closing value (determined at a specific date) is less than its initial value at date of issuance and the 10-year CMT is greater than 2% as of a specified date. In all cases, the minimum principal redemption will be 100% of face amount.	Purchased option	NO	Underlying is linked to an equity index.
Cancellable debt	Debt that allows the issuer to prepay the debt but imposes a penalty equal to the present value of lost interest for the remaining term of the contract	Prepayment option	Yes	Is closely related per IFRS 9.B4.3.5(e)(ii)