



**UNIDROIT COMMITTEE OF GOVERNMENTAL EXPERTS FOR
THE PREPARATION OF A DRAFT CONVENTION ON
SUBSTANTIVE RULES REGARDING INTERMEDIATED
SECURITIES**

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Observations on Transition Provisions

(submitted by the Delegation of the United States of America)

We believe that the transition provisions for the Convention should include the following principles:

1. The Convention should specify a period of time following a Contracting State's ratification after which the Convention would become effective in situations in which that Contracting State's law is the non-Convention law (the "effective date").
2. The Convention's transition rule should not upset or rearrange priorities that are established between persons before the effective date.
3. The Convention's transition rule should provide that the Convention (including its priority and innocent acquisition rules) will apply to all post-effective date interests, including as between post-effective date interests and as between post-effective date interests and pre-effective date interests.
4. References in the Convention to account agreements and control agreements should be understood to refer to such agreements entered into either before or after the effective date.

The period of time to be provided under Principle 1 warrants further discussion. The decision must balance the interests of prompt application of the Convention regime in a Contracting State with the need to provide sufficient time for interested persons to study and become familiar with the Convention.

Principle 2 is grounded on the foundation of respect for settled relationships and preservation of the reasonable expectations of parties at the inception of their transactions. Under Principle 3, however, these expectations would yield to the Convention regime with respect to post-effective date interests.

Principle 4, consistent with the Hague Convention, Article 16(1), recognizes that it would be costly and wasteful to require new post-effective date agreements when the terms of pre-effective date agreements would be adequate for application under the Convention regime.