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Smart Contracts: Legal Implications in the Age of Automation

Nima Ballaji

Doctoral Center of Law and Economics, University Mohammed V, Rabat, Morocco
Email: nima.ballaji22@gmail.com

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Abstract

Blockchain-powered smart contracts are automating contract execution, completely changing the way business transactions are conducted. In the era of automation, this article examines the legal ramifications of smart contracts, contrasting them with conventional contracts and examining the advantages and disadvantages they offer. The essay explores regulatory considerations for incorporating smart contracts into current legal frameworks while protecting the interests of contractual parties and consumers by drawing on the nexus between law and technology. Stakeholders can efficiently manage the intricacies of smart contracts and promote innovation and legal compliance in commercial transactions by identifying best practices and recommendations.

Keywords

Smart Contracts, Blockchain Technology, Legal Implications, Automation, Traditional Contracts, Comparative Analysis, Regulatory Considerations, Consumer Protection, Contractual Fairness, Innovation, Legal Compliance

1. Introduction

Smart contracts are a revolutionary development in the realm of commercial transactions that have emerged in recent years due to the widespread use of blockchain technology (Swan, 2015). Blockchain-encoded self-executing contracts have drawn interest from a wide range of businesses, with the potential to automate and decentralize traditional contractual processes (Salha, El-Hallaq, & Alastal, 2019). Smart contracts play an increasingly important role in improving efficiency and optimizing operations as firms embrace digital transformation.

Since its introduction by computer scientist Nick Szabo (Szabo, 1997) in the 1990s, the idea of a smart contract has grown into a potent instrument for automating and upholding contracts without the need for middlemen.

Smart contracts carry out predetermined activities automatically when certain criteria are satisfied, as contrast to traditional contracts, which rely on human interpretation and enforcement procedures. The transition from manual to automated contract execution presents significant legal issues that need to be thoroughly considered and managed within the framework of changing business procedures.

In the era of automation, this study aims to investigate the legal environment around smart contracts. Our goal is to clarify the benefits and problems that smart contracts bring to businesses, lawyers, and politicians by exploring their intricacies and drawing comparisons with regular contracts. In addition, we will look at the regulatory issues that come with incorporating smart contracts into the current legal systems while defending the rights of both contractual parties and consumers.

The primary issue addressed in this article is how businesses and policymakers can effectively navigate the legal complexities of smart contracts in the digital age while maintaining regulatory compliance and protecting contractual rights and obligations in an increasingly automated environment.

With this investigation, we hope to give stakeholders navigating the intricacies of smart contracts in modern business settings a broad overview of the dynamic relationship between law and technology. Businesses may take full use of the transformative potential of smart contracts while maintaining legal compliance and protecting contractual rights and responsibilities by being aware of the regulatory obstacles and legal ramifications that come with this cutting-edge technology.

2. Understanding Smart Contracts and Their Legal Framework

2.1. Introduction to Smart Contracts

At the nexus of law and technology, smart contracts are a revolutionary invention. These self-executing contracts, which were first introduced by computer scientist Nick Szabo in the 1990s, are stored on a blockchain and take automated action when certain criteria are satisfied. Smart contracts function with digital precision, providing efficiency, transparency, and security in commercial transactions, in contrast to traditional contracts, which depend on human interpretation and enforcement (Szabo, 1997).

2.2. Legal Foundations of Smart Contracts

Fundamentally, smart contracts form and uphold contractual agreements by the application of well-established legal concepts (Corrales, Fenwick, & Haapio, 2019). Smart contracts are based on important legal ideas, including consideration, offer and acceptance, contractual intent, and legality of object. These ideas are converted into code, enabling smart contracts to carry out their contractual duties independently and without the assistance of middlemen.

2.3. Enforceability of Smart Contracts

Within legal circles, there has been discussion and examination regarding the enforceability of smart contracts. Smart contracts have raised concerns about their legality and enforceability in different jurisdictions, notwithstanding their potential for self-execution and tamper-resistant enforcement. The enforceability of smart contracts is significantly shaped by legal precedents and court decisions, emphasizing the importance of uniformity and clarity in legal interpretations (Clack, Bakshi, & Braine, 2016).

2.4. Contractual Relationships and Liability

When parties engage in a transaction, smart contracts create legal relationships between them by digitally outlining their rights, obligations, and liabilities. Each of these relationships—developers, users, counterparties, and third-party service providers—has certain duties and obligations. Liability concerns emerge when there are disagreements, breaches, or unanticipated events; therefore, when designing and implementing smart contracts, legal considerations must be carefully taken into account (Filippi & Wright, 2018).

From a legal standpoint, it is important to understand that smart contracts are an innovation that uses technology to automate and streamline contract execution rather than a fundamental break from conventional contract law. Because of this, comprehending smart contracts from a legal standpoint entails breaking down their guiding principles and analyzing their consequences in relation to the established framework of contract law.

2.5. Summary of Key Features and commentary on Smart Contracts

To sum up what's been discussed above, smart contracts, which use blockchain technology to automate and preserve transactions, have the potential to completely transform the way contracts are carried out and enforced. Comprehending their key features is essential to recognize their potential and legal impact:

- Self-Executing Agreements: Smart contracts are made to start working automatically as soon as certain requirements are satisfied. The conditions of the contract are hardcoded into the blockchain, doing away with the need for middlemen and lowering the possibility of human error.
- Decentralization: Because smart contracts run on a decentralized blockchain network, they are not governed by a single party. The integrity of the contract is preserved across numerous nodes, which increases security and dependability due to this decentralization.
- Immutability: Smart contracts are unchangeable once they are implemented. This guarantees that the terms and conditions are unchangeable, enhancing confidence and security and making the contract impenetrable.
- Transparency: All parties can independently confirm the terms and performance of a smart contract without the assistance of a third party by viewing

the code and how the contract is being executed on the blockchain.

- Efficiency: Smart contracts drastically cut the time and expenses related to traditional contract management by automating the execution process. This effectiveness can reduce administrative burden and streamline processes.
- Security: Smart contracts are extremely resistant to fraud and hacking since they are safeguarded using cryptographic techniques. By dispersing its data throughout a large network of nodes, the decentralized structure of the contract adds even more security.

In brief, the emergence of smart contracts offers substantial benefits in automation, security, and efficiency, thus leading to a paradigm shift in contractual interactions. Two particularly attractive qualities that can improve operations across a variety of sectors are the suppression of intermediaries and a reduction in transaction costs.

But there are drawbacks to smart contracts' immutability as well. Errors in the contract code are irreversible and may result in unexpected consequences. Moreover, there is a lot of legal ambiguity because the regulatory frameworks and legal systems that are in place now are not sufficiently capable of handling the complex features of smart contracts.

Although these difficulties, smart contracts have huge potential to revolutionize several industries. The adoption of smart contracts in everyday life is expected to rise as technology, revolutionizing the way we do business and uphold agreements.

3. Comparative Analysis: Traditional Contracts vs. Smart Contracts

The foundation of all commercial transactions, contracts offer a legally binding structure for the transfer of products, services, and responsibilities. The introduction of smart contracts is posing a threat to traditional contracts, which have been the norm for millennia. This section examines the main distinctions between conventional and smart contracts, emphasizing their special qualities, benefits, and possible downsides.

3.1. Form and Execution

Conventional contracts are usually oral or written agreements that may be discussed and changed in person. For example, a real estate contract for the sale of a home entails thorough discussions mediated by real estate agents and concluded with signatures between the buyer and seller. They rely on manual enforcement procedures, frequently including legal actions in case of disputes, and require signatures or other types of validation in order to become legally enforceable. For instance, the harmed party could have to file a lawsuit to seek remedies if there is a breach of contract in a construction agreement (Robert, Cooter Jr., & Ulen, 2011).

In contrast, smart contracts are digital contracts that are stored on a block-

chain and that, in the event that certain requirements are satisfied, automatically carry out predetermined activities. In a supply chain management system, for example, a smart contract might automatically pay a supplier as soon as blockchain tracking verifies the delivery of the products. They rely solely on cryptographic validation, doing away with the requirement for physical signatures. The self-executing and self-enforcing nature of smart contracts eliminates the need for middlemen and manual enforcement (Clack, Bakshi, & Braine, 2016).

3.2. Transparency and Trust

Conventional contracts frequently call for a certain amount of confidence between the parties and unaffiliated third parties, like notaries or attorneys. For instance, in order to make sure that the terms of employment are reasonable and compliant with the law, both the employer and the employee may rely on a legal counsel in an employment contract. These contracts' wording could be ambiguous or open to different interpretations, which could result in disagreements.

On the other side, smart contracts provide transparency by enabling all parties to confirm terms and conditions through the blockchain's public ledger. Smart contracts, for instance, transparently oversee lending and borrowing activity in decentralized finance (DeFi) platforms, where all terms are available on the blockchain. Because of their immutable records and cryptographic security, they offer a high degree of confidence while lowering the possibility of tampering.

3.3. Efficiency and Costs

Due to the necessity of discussions, legal scrutiny, and enforcement, traditional contracts can be expensive and time-consuming. For example, negotiating and paying for legal fees might take months when preparing a corporate merger agreement (Scott & Kraus, 2013). They entail the possibility of execution and dispute resolution delays, as well as administrative expense.

By automating contract execution and cutting down on the time and expenses related to human operations, smart contracts improve efficiency. Significant cost savings result from this automation's reduction of administrative burden and acceleration of transactions (Werbach, 2018). For instance, after flight information is confirmed via an API, a smart contract may immediately initiate a settlement for a travel delay claim in the insurance industry, removing the need for manual claim processing.

3.4. Challenges and Limitations

Notwithstanding these benefits, there are drawbacks and restrictions with both kinds of contracts. Conventional contracts provide for drafting and interpretation freedom, enabling complex agreements suited to particular need. A degree of supervision and judgment that can adjust to unanticipated events is provided

by human engagement (Scott & Kraus, 2013). On the other hand, smart contracts are constrained by the accuracy of the code; they can only carry out the conditions precisely as written and are incapable of responding to unanticipated circumstances (Werbach, 2018). They are susceptible to bugs and code faults, which may result in unexpected consequences or security flaws. A thorough understanding of blockchain technology and legal principles is necessary for the effective application of smart contracts (Filippi & Wright, 2018).

Case studies and real-world examples help to further highlight these distinctions. Real estate transactions are typified by traditional contracts, which frequently entail drawn-out discussions and formal legal proceedings, with numerous middlemen making sure that legal requirements are met. Legal advice is often involved in employment contracts to specify duties, compensation, and conflict resolution procedures. On the other hand, smart contracts play a major role in Decentralized Finance (DeFi) platforms, automating trading, borrowing, and lending without the need for middlemen. Smart contracts are also used by supply chain management systems to monitor and confirm the origin and flow of commodities, increasing efficiency and transparency.

Finally, a comparison between smart contracts and regular contracts shows that there has been a significant change in the form and functionality of contractual agreements. Conventional contracts provide human control and flexibility; smart contracts prioritize automation, efficiency, and improved security (Al Hamrani & Al Hamrani, 2021). Businesses and legal professionals navigating the changing landscape of digital transactions must understand the advantages and disadvantages of each form of contract. Stakeholders can develop more resilient and flexible contractual frameworks going forward by combining the advantages of regular and smart contracts.

4. Challenges and Opportunities of Smart Contracts

The growing popularity of smart contracts makes it essential to comprehend the challenges as well as the opportunities they offer. Although these digital agreements provide major improvements in automation, openness, and efficiency, they nevertheless face serious technological and legal challenges. This section explores the unique obstacles that must be overcome in order for smart contracts to be widely adopted, as well as the potential benefits they present for completely changing a range of industries.

4.1. Challenges of Smart Contracts

4.1.1. Challenges in Integrating Smart Contracts

There are many obstacles to integrating smart contracts that affect both society and users. Since many jurisdictions do not yet recognize smart contracts as legally enforceable, users run the risk of being left without legal redress. Legal and regulatory uncertainty is still a major problem (Allen & Hunn, 2022). Technical flaws like scalability problems and code mistakes might have unexpected effects

or lead to inefficiency.

Another difficulty with creating and reading smart contracts is their complexity; converting complex legal agreements into exact code calls for a high degree of skill and particular attention to details. Due to the inflexible nature of blockchain and the susceptibility of smart contracts to hackers, security considerations are of greatest significance (Atzei, Bartoletti, & Cimoli, 2017).

Lastly, financial factors are crucial. Creating, implementing, and managing smart contracts can be expensive, especially for small and medium-sized businesses, and certain blockchain networks may charge exorbitant transaction fees. To fully utilize the advantages of smart contracts while minimizing their risks, industry players, legislators, legal experts, and engineers must collaborate to address these complex issues.

4.1.2. Technological Challenges

Despite all of its benefits, smart contracts still have a lot of technological issues that need to be resolved before they are widely used. The rigidity of code is a significant difficulty; smart contracts can only carry out the terms exactly as specified, which might cause issues in unanticipated situations. For example, a smart contract code vulnerability was exploited during the Ethereum blockchain's "DAO hack"[1], resulting in a substantial loss of assets (Atzei, Bartoletti, & Cimoli, 2017). This event brought to light the dangers of coding mistakes and the possibility for bugs to have unexpected consequences.

Furthermore, the accuracy of the data entered into smart contracts is crucial. The contract's execution may be jeopardized if the data it uses is faulty or tampered with. For instance, in a supply chain scenario, a smart contract may transfer payment early or to the incorrect party if inaccurate delivery data is entered. The use of outside data sources, sometimes known as "oracles", adds another degree of complexity and danger.

Thorough testing and auditing are necessary to guarantee smart contract security and dependability. The resource-intensive nature of creating and managing safe smart contracts continues to be a major obstacle, despite their potential to save administrative costs and boost productivity (Filippi & Wright, 2018). To fully realize the potential of technology, it is imperative that these obstacles be addressed.

4.1.3. Legal Challenges

Although there are many advantages to smart contracts, there are also major legal issues that need to be resolved before they can be widely used. The intricacies and subtleties of smart contracts, which frequently reside in a legal murky region, are beyond the purview of conventional legal systems. Smart contracts function precisely as written, with no opportunity for modification in response

[1]A weakness in the smart contract design caused the DAO attack on the Ethereum network in June 2016 to lose about 3.6 million Ether (ETH). The Ethereum network experienced a hard fork as a result of this, splitting into Ethereum (ETH) and Ethereum Classic (ETC).

to unclear or unanticipated events, in contrast to traditional contracts, which permit interpretation and flexibility (Werbach, 2018).

A significant legal obstacle is the jurisdictional issue. Due to the decentralized nature of blockchain technology, it can be difficult to determine which country's laws will take precedence in the event of a disagreement. For instance, it can be difficult to decide which nation's laws apply to a smart contract between a buyer in the United States and a seller in Germany in the event that it fails and where the dispute should be settled (Filippi & Wright, 2018).

Smart contract enforceability is another legal concern. Even though these agreements are self-executing, they might not be regarded as legally binding by conventional legal systems. Because there could not be any legal repercussions in the event that a smart contract is broken or fails, this ambiguity can put parties engaged in the deal at risk.

For example, it may be challenging for the parties to pursue legal remedies under current contract law in the event of a defective smart contract in a real estate transaction (Werbach, 2018).

Another major issue with smart contracts is liability. In conventional contracts, it is usually evident who is at fault and what remedies are available in the event of a breach. However, culpability may be less clear when using smart contracts. For instance, it might not be evident who is liable for the loss—the platform, the developer, or the parties to the contract—if a code error results in an inadvertent transfer of funds. The attribution of liability and the pursuit of compensation are complicated by this ambiguity (Filippi & Wright, 2018).

These legal complexities highlight the requirement for an all-encompassing framework that combines legal precepts with the technological details of smart contracts. Legislators and regulators must create precise policies and rules as the usage of smart contracts increases.

4.2. Opportunities of Smart Contracts

By improving efficiency, transparency, and security, smart contracts offer a number of options that have the potential to completely transform a number of industries. These blockchain-based digital contracts offer the ability to improve trust between parties participating in transactions, lower costs, and streamline procedures.

4.2.1. Efficiency

Processes that have historically required human intervention can be automated by smart contracts, greatly increasing operational efficiency. Smart contracts, for instance, can automate payments upon delivery confirmation in the supply chain industry. The smart contract can minimize delays and administrative expenses by automatically releasing payment to the provider when a package arrives at its destination (Werbach, 2018). In the insurance industry, smart contracts can also speed up the processing of claims by automatically confirming terms and disbursing payments. For example, after flight information is vali-

dated via an API[2], a smart contract can initiate an immediate reimbursement for a travel delay claim, thereby removing the necessity for manual claim processing (Filippi & Wright, 2018).

4.2.2. Transparency

Smart contracts are based on the intrinsic transparency of blockchain technology, which offers an impenetrable record of every transaction. Transparency like this can boost mutual trust and cut down on fraud. A smart contract might, for instance, guarantee that every stage in real estate transactions—from title verification to money transfer—is documented and verifiable by all parties. This lowers the possibility of disagreements and improves the transaction process's integrity (Filippi & Wright, 2018).

4.2.3. Security

Because of blockchain's immutability and cryptographic validation, smart contracts provide strong security. A smart contract that has been implemented cannot be changed, guaranteeing that the conditions are carried out without the possibility of manipulation. This is especially helpful in industries like finance where security is crucial. Smart contracts, for example, can automate loan disbursements and repayments in peer-to-peer lending platforms, guaranteeing that agreements are properly followed to without the danger of human error or interference (Swan, 2015).

4.2.4. Cost Savings

Smart contracts can result in large cost savings by automating contract execution and removing the need for middlemen. Conventional contracts sometimes include protracted negotiation processes, substantial legal costs, and administrative overhead. These procedures are streamlined by smart contracts, which lowers the time and expense of contract administration. For instance, months of talks and expensive legal expenditures are usually involved in negotiating a corporate merger agreement. Many of these processes might be automated by a smart contract, making transactions quicker and more affordable (Robert, Cooter Jr., & Ulen, 2011).

These possibilities demonstrate how smart contracts have the ability to revolutionize a number of sectors. The use of smart contracts is anticipated to grow as legislation changes and technology progresses, spurring efficiency and innovation in commercial dealings.

5. Regulatory Considerations and Legal Framework

The need for a strong regulatory framework is becoming more and more appar-

[2]An API (Application Programming Interface) in the context of smart contracts offers a collection of tools and protocols that allow outside apps to communicate with the blockchain and the smart contracts that are installed on it. This makes it easier to integrate smart contracts with decentralized apps (dApps) and other external systems. It also offers functionality for contract interaction, data searching, event listening, and transaction management.

ent as the usage of smart contracts increases. The potential benefits of smart contracts may be undermined in the absence of clear laws by the risks they provide, including security vulnerabilities, legal ambiguity, and jurisdictional concerns. To guarantee the safe, equitable, and efficient use of smart contracts, a clear legal framework is necessary.

5.1. Current Regulatory Landscape

In a similar vein, the EU Blockchain Observatory and Forum are investigating comprehensive legislation with the goal of establishing a uniform legal framework among member states.

Additionally, the Law Commission in the United Kingdom has been investigating the legal standing of smart contracts and making suggestions to guarantee their enforceability under English law. In a report released in 2021 (UK, Law Commission, 2022), the UK Law Commission confirmed that smart legal contracts can be used in England and Wales within the current legal framework without the need for statutory law modification. The paper highlights that, even when represented in code, smart contracts can satisfy conventional legal requirements including offer, acceptance, consideration, and intent to create legal relations (UK, Law Commission, 2022).

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In line with conventional legal concepts, the Law Commission's research emphasizes how smart legal contracts can be completely automated and carried out without the need for human interaction. In order to guarantee that these digital agreements are enforceable under English law, the research also emphasizes the significance of clarity in contract creation and execution, concentrating on the elements of offer, acceptance, consideration, and intent (Hirschfield & Duric, 2022).

5.2. Limitations of Traditional Legal Systems in Handling Smart Contracts

Conventional legal systems encounter several obstacles when attempting to handle the specifics and complexities of smart contracts.

- Interpretation and Enforcement: Because smart contracts are written in code, they might not follow standard legal terminology or norms. Technical terms and conditions can be difficult for courts and legal practitioners to understand, which can make it difficult to enforce the law and decide cases (Filippi & Wright, 2018).

- Immutability and Irrevocability: Once implemented on a blockchain, smart contracts are meant to be unchangeable, which means that their conditions are difficult to change or remove. This feature could be challenging to deal with contract law concepts in traditional legal systems that permit updates and revisions to contracts (Filippi, Primavera, & Hassan, 2017).
- Jurisdictional Concerns: Smart contracts function beyond national borders and across decentralized blockchain networks. Given that traditional legal systems are often based on territorial jurisdiction, this presents difficulties for determining which jurisdiction's rules apply in the event of a disagreement (Goldsmith & Wu, 2006).
- Contractual Disputes: Smart contract disputes may have technical complexities that conventional legal systems are ill-suited to resolve. For example, resolving arguments about bugs, vulnerabilities, or code functioning may need specialist knowledge (De Filippi & Wright, 2018).
- Education and Experience: Judges and attorneys could not be as knowledgeable with smart contracts and blockchain technology as they should be, which would make it more difficult for them to resolve conflicts and administer the law as it stands (Wang, 2019).

5.3. Regulatory Challenges

5.3.1. Jurisdictional Issues

Determining jurisdiction is one of the main issues with smart contract regulation. It might be challenging to determine whether nation's laws apply to a specific smart contract because blockchain technology is international in nature (Filippi & Wright, 2018). When parties to the contract are located in different countries, each with its own set of legal requirements and interpretations, the situation becomes much more problematic. A case study of jurisdictional problems in smart contract regulation involves the use of smart contracts by a multinational firm for supply chain transaction management. Determining which country's laws apply in a dispute between a firm established in Country A and a supplier based in Country B can be difficult. The formulation, performance, and dispute resolution of contracts may be governed by rules unique to each area, making the enforcement of smart.

5.3.2. Enforceability

Another crucial issue is making sure smart contracts can be enforced. Conventional contracts are supported by legal frameworks that offer procedures for resolving conflicts and upholding agreements (Robert, Cooter Jr., & Ulen, 2011). However, because smart contracts operate automatically and without human interaction, concerns have been raised regarding how disputes might be settled in the event that something goes wrong. For example, it is not obvious how traditional courts would handle the problem and offer remedies if a smart contract malfunctions because of a coding error. One scenario that illustrates enforceability concerns would be a smart contract that is intended to automatically pay a freelancer for a

job well done. In the unlikely event that a technical malfunction causes the smart contract to execute early and release funds before the project is completed, conventional legal procedures might not be able to provide a remedy.

It may be necessary to use cutting edge techniques to resolve these conflicts, like arbitration panels with experience in both technology and contract law, in order to understand the goals of the smart contract and guarantee just results.

5.3.3. Liability

It can be difficult to determine who is liable if a smart contract fails. According to Frankenreiter (Frankenreiter, 2019), traditional contracts usually have explicit clauses regarding liability as well as remedies for violations. However, because smart contracts might involve a number of parties, such as developers, consumers, and service providers, it can be challenging to assign blame when anything goes wrong. For instance, it can be difficult to assign blame when a coding issue results in a monetary loss to the platform, the developer, or the parties to the contract. Think about a decentralized autonomous organization (DAO) that makes investing decisions based on smart contracts. Determining culpability becomes complex if a flaw in the smart contract code causes a large financial loss for DAO members.

It may become unclear who is accountable for failing to properly audit the code—the DAO members, the platform that hosts the smart contract, or the developers who wrote the contract. It is necessary to carefully analyze each party's position and legal obligations under current and developing regulatory frameworks in order to resolve such liability concerns.

5.4. Enhancing Regulatory Structures for Smart Contracts

The swift proliferation of smart contracts highlights the vital requirement for strong regulatory frameworks to efficiently oversee their implementation and functioning. Developing international cooperation to standardize regulatory approaches across borders, putting strict code auditing best practices into place to guarantee dependability and security, and creating thorough legal recognition frameworks that define their legal status and enforceability are all essential to addressing this imperative.

5.4.1. International Collaboration

The international harmonization of regulatory methods is crucial in tackling the jurisdictional intricacies linked to smart contracts. For instance, cooperative efforts between international organizations like the International Organization for Standardization (ISO) and the United Nations Commission on International Trade Law (UNCITRAL) can aid in the creation of uniform standards and guidelines (United Nations, Commission on International Trade Law UNCITRAL). These initiatives seek to provide a unified legal framework that facilitates the enforcement and execution of smart contracts across international borders, giving individuals and companies operating in various jurisdictions the

assurance that uniform legal standards will be followed when conducting business.

5.4.2. Best Practices for Code Auditing

Strict auditing and verification procedures must be put in place in order to reduce the danger of smart contract code mistakes and security flaws. For example, frequent audits carried out by independent cyber-security companies can find flaws that might otherwise be exploited in the case of a decentralized finance platform using smart contracts for lending guaranteeing the security of user funds (PricewaterhouseCoopers (PwC), 2021). Further enhancing the security and dependability of smart contract code is the use of best practices, such as formal verification techniques and standardized testing methodologies. These steps assist in locating and fixing possible flaws before they affect the security or fulfillment of contracts.

5.4.3. Legal Recognition and Frameworks

Governments ought to endeavor to formally acknowledge smart contracts and establish unambiguous protocols for their creation, implementation, and enforceability. To ensure the validity and enforceability of electronic contracts, including smart contracts, the United States has established a legal framework through the Uniform Electronic Transactions Act (UETA) and the Electronic Signatures in Global and National Commerce Act (ESIGN) (National Conference of State Legislatures (NCSL), 2022). Legal frameworks ought to encompass fundamental components like permission, consideration, and intent, guaranteeing that smart contracts receive the same legal treatment as conventional contracts. In the event that a contract fails or is broken, parties may have redress if dispute resolution procedures are created specifically for smart contracts.

6. Best Practices and Recommendations

As smart contracts grow more and more essential to many different industries, it is crucial to make sure they are implemented securely and effectively. Organizations can use best practices and recommendations as a framework to manage the challenges posed by smart contracts. Entities can improve the overall efficacy, security, and dependability of their smart contract deployments by following these criteria. In order to minimize risks and optimize the advantages of smart contracts, companies should take into account the main tactics and methods described in this area.

6.1. Address Security Threats in Smart Contracts

Smart contract security threats require the application of various crucial techniques.

Initially, in order to find and fix vulnerabilities early in the development cycle, comprehensive code audits and rigorous verification procedures are necessary

(Atzei, Bartoletti, & Cimoli, 2017).

In the other hand, robustness against potential exploits is ensured through the use of secure development approaches, such as strict coding standards adherence and thorough testing.

Also, modular design and restricted access permissions are two architectural choices that lower attack surfaces and protect vital functions.

Additionally, increasing resilience against data manipulation and unanticipated breaches can be achieved by integrating reliable external data sources and putting time-locks and circuit breakers in place (Gary, 2006).

And finally, a proactive strategy for preserving smart contract security is encouraged by ongoing monitoring, incident response planning, and community involvement through peer review and instruction, which strengthen defenses even further (Tapscott & Tapscott, 2016).

6.2. Thorough Code Audits and Testing

Conducting exhaustive code audits and rigorous testing prior to deployment is an essential best practice. Thorough audits conducted by outside security companies might assist in finding flaws and vulnerabilities that the original developers might have missed. One cannot stress the significance of these audits enough, since they are essential to improving the security of smart contracts (Arner, Barberis, & Buckley, 2019).

6.3. Clear Legal Framework and Jurisdictional Clarity

Another important best practice is creating a clear legal framework and attaining jurisdictional clarity. This entails working with legal professionals to create smart contract language that specifically addresses jurisdiction and dispute resolution procedures. An established legal framework for the execution of contracts reduces jurisdictional issues and offers a methodical way to resolve disputes (Finck, 2019).

6.4. Comprehensive Documentation

It's also crucial to provide thorough documentation for smart contracts. Comprehensive documentation ought to encompass details regarding the smart contract's functionality, its hazards, and the duties of the user. Clear documentation ensures that all stakeholders fully understand the operation and related risks of the smart contract, fostering user trust and facilitating informed decision-making (Filippi & Wright, 2018).

6.5. Implement Robust Dispute Resolution Mechanisms

It is advised that the smart contract have strong dispute resolution procedures. Arbitration clauses, automated resolution procedures, and multi-signature wallets are a few examples of these techniques. Through the incorporation of dispute resolution procedures, smart contracts offer an organized approach to

managing disagreements and guarantee equitable results, thus augmenting user trust and contract dependability (Levy, 2017).

6.6. Regular Updates and Maintenance

To keep up with evolving regulations and security risks, smart contract code must be updated and maintained on a regular basis. According to Middlebrook and Hughes (Middlebrook & Hughes, 2016), a governance framework that permits updates and adjustments guarantees that smart contracts stay safe and adhere to changing legal requirements. Updating and maintaining systems on a regular basis is necessary to handle new legal requirements and risks.

6.7. User Education and Training

The effective use of smart contracts depends heavily on user education and training. Users can reduce the risk of mishandling or misunderstanding smart contracts by being informed on their features, hazards, and appropriate usage. Creating instructional materials and programs increases user literacy with respect to smart contract technology, resulting in a user base that is more knowledgeable and competent (Reiners, 2019).

6.8. Adherence to Industry Standards

Another important suggestion is to build and implement smart contracts according to industry standards and best practices. Participating in standard-setting organizations and keeping up with industry norms help to build best practices and provide a degree of quality and security that all stakeholders can rely on (Grimmelmann, 2018).

7. Conclusion

The incorporation of smart contracts into diverse industries signifies a noteworthy technical progression that holds the capacity to transform conventional contractual procedures. But there are intricate legal ramifications to this innovation that call for careful thought and modification. We have looked at the many facets of smart contracts in this article, emphasizing their special qualities, comparing them to traditional contracts, the opportunities and problems they present, the regulatory issues they raise, and the best practices and suggestions for putting them into practice.

7.1. The Future of Smart Contracts in Business Law

The use of smart contracts in business law seems to have a bright future. Blockchain technology improvements and the growing use of smart contracts will assist organizations by bringing about improved automation, transparency, and efficiency. Nevertheless, for these advantages to be fully realized, the legal system must advance along with technology. In order to handle the particular legal issues raised by smart contracts and to establish an atmosphere that encourages

innovation, legislators and legal experts need to collaborate.

7.2. Reflections on the Evolution of Smart Contracts

When one considers how smart contracts have developed, it is clear that they have advanced significantly from their theoretical beginnings. Smart contracts, which were first met with suspicion, are now acknowledged for having the ability to completely change the process of creating and carrying out contracts. This evolution highlights the necessity of ongoing communication between legal professionals and technologists, as well as the significance of adaptability in legal frameworks. The increasing sophistication of smart contracts is expected to lead to their increased integration into standard business procedures, hence underscoring the necessity of strong legal and regulatory frameworks.

7.3. Closing Thoughts on Legal Implications and Technological Innovation

To sum up, the path towards a future of smart contracts is fascinating and demanding. The technology has significant legal ramifications, thus it is important to carefully analyze them and take preventative action to make sure that smart contracts' advantages may be achieved without sacrificing the integrity of the law. Best practices, such carrying out exhaustive code audits, creating precise legal frameworks, and putting in place reliable dispute resolution procedures, must be used by organizations. Navigating this complex ecosystem will also require education and adherence to industry norms. In the coming years, as smart contracts become more and more integrated into many businesses, cooperation between regulators, legal experts, and technologists will be essential. By working together, we can overcome the obstacles and realize the full potential of smart contracts, ensuring that technological innovation is underpinned by strong legal frameworks. By adhering to these guidelines, we may create a future in which smart contracts improve corporate operations and make the world more automated, transparent, and efficient.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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