3 KEY TAKEAWAYS

How Blockchain Technology will Reshape Legal Contracting

On October 4, Kilpatrick Townsend's Karam J. Saab and Brian Olion along with other thought leaders presented on "How Blockchain Technology will Reshape Legal Contracting" at the *ACC Colorado Fall Frenzy* in Denver. During their session, the panel addressed how blockchain platforms are reshaping contracting, particularly how blockchain can be used to protect the security and integrity of contracts and automatically execute based on external conditions.

Key takeaways from the panel discussion include:

1 Blockchains have important uses besides cryptocurrencies. "Smart contracts" are contracts built and recorded on a blockchain platform that allow for independent verification of data without a centralized controlling party. A smart contract allows the parties to memorialize a contract using a blockchain that significantly decreases the ability to fraudulently change the terms of the contract. Furthermore, smart contracts are self-executing. That is, in response to a particular event, the smart contract can automatically executes, such as to transfer value, from one party to another.

2 Smart contracts are already in use by companies to create trustworthy records of transactions that are typically difficult to monitor. For instance, smart contracts recorded as part of a blockchain are being used to track coffee cherries from harvest by a farmer through roasted coffee bean purchase by the consumer. Such an arrangement allows for rural farmers, typically in countries without well-developed legal infrastructure, to accurately record their harvested coffee crops and allows consumers to trace the origin of purchased coffee through processing and back to the farmer. Such a record further benefits the farmer by providing a trustworthy record of past harvests, which can be used to secure loans to further the farmer's development.

3 While smart contracts have significant benefits, the technology is in its infancy and several pitfalls exist. While smart contracts execute automatically, such execution opens the opportunity for incorrect coding to cause unintended consequences, potentially resulting in a smart contract executing when it was not intended to do so. Such an error can be exacerbated by the smart contact automatically transferring an asset, thus resulting in the contracting parties needing to work together in good faith to correct the transaction by recording a second transaction to the blockchain. Further, while blockchain technologies can increase the reliability of data once placed on the blockchain, the opportunity for fraud or mistake in the data input into the blockchain remains possible. For example, a first party may be use a smart contract to conditionally transfer an asset to a second party. However, this presupposes that the first party has initial legal ownership of the asset and the right to transfer it.

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