



Image Alt Text: Smart contract executing automated transactions on a blockchain network.

Meta description: Are smart contracts enforceable in the U.S.? Learn how U.S. law treats smart contracts and when they are legally binding.

Are Smart Contracts Legally Binding Under U.S. Law?

For many years, parties entering into an agreement have relied on traditional contracts; however, with the development of blockchain technology, more people have begun to embrace smart contracts. Self-executing contracts increase efficiency and reduce costs by eliminating middlemen, which is one of the contract's most alluring features.

Such contracts run on public ledgers and can neither be changed nor deleted, addressing trust issues between parties entering into an agreement. With smart contracts, parties know the expected outcome. Further, the next terms are only satisfied if certain conditions are met.

More businesses across [various industries are embracing their use](#) in digital transactions, despite concerns about their legal status. Traditional contract law provides the framework for enforceability, but its application to smart contracts is not always straightforward.

Let's first dive deeper into understanding smart contracts.

Defining Smart Contracts

Simple and complex transactions use smart contracts. You have likely interacted with a smart contract when getting a drink or a bag of chips from a vending machine. A smart contract is an agreement that uses coded instructions for execution. It uses 'if/when-then' commands to execute the agreement.

In the example of the vending machine, when someone inserts money and selects an item, the machine releases the item. The machine only releases the soda once it verifies that the money is enough for the selected item. One event triggers the next.

Traditional contracts are agreements between parties that contain terms and conditions written down in a formal document. Like traditional contracts, a smart contract is an agreement, but it uses software on blockchain networks to store the agreement's details in data blocks.

In a more complex transaction, such as NFTs, the artist automatically receives funds upon purchase. Such transactions are more straightforward than having third parties handle royalty payments. Smart contracts don't need intermediaries. When a condition is met, it automatically activates the fulfillment of a defined term.

Are Smart Contracts Legally Enforceable?

In the U.S., smart contracts can be legally enforced, but this depends on the nature of the agreement. The smart contract must meet the legal requirements of a contractual agreement to be considered legally binding.

A legally enforceable contract should contain the following basic elements:

- **Valid offer and acceptance expressing mutual assent:** Both parties must understand and agree to the terms of the agreement
- **Consideration:** The parties exchange something of value
- **Capacity:** Each party must have the legal capability to enter into the agreement
- **Legality:** A contract must adhere to the laws of the jurisdiction in which it operates

In a legally enforceable contract, a party may take legal action if the other party breaches the contract. Enforceability in the traditional sense may not be a significant issue in smart contracts because of their automated nature. For example, if a buyer doesn't make the full payment, the system will not release the item. However, smart contracts still raise some legal concerns.

Legal Issues Associated With Smart Contracts

The formation and execution of smart contracts present several legal challenges, particularly in the event of a breach, unlawful enforcement, or disagreement between parties. Some of the smart contract features that facilitate efficiency also present challenges within the existing legal frameworks governing contracts.

Here are some of the legal issues that you should consider before using a smart contract in your transactions.

E-signatures Eligibility

The law recognises that some contracts aren't in written form and allows for electronic signatures under the [E-Sign Act](#). Contracts can be legally binding if they meet the criteria for e-signature eligibility in the jurisdiction where they are executed.

Some smart contracts may not be binding due to this factor. Some jurisdictions don't permit electronic signatures in contracts involving:

- Family law documents
- Wills
- Court orders
- Eviction notices
- Toxic substances transport documents
- Utility services cancellation documents

It's possible to have smart contracts for an array of issues, but confirm that the law recognises e-signatures on the matter.

Contract Modification

The execution of smart contracts is irreversible. Unlike traditional contracts [\[\[Internal link – Practice Area Page for Contract Law\]\]](#), where the parties can modify certain clauses in an agreement, you can't make changes to a smart contract if needed. You would need to cancel the contract and draft a new one with the desired changes.

Code Interpretation

When issues arise in contracts written in human language due to ambiguous language, courts intervene in the interpretation. For example, words like 'best efforts' or 'market value', in a contract, can have different interpretations. Judges can weigh the prevailing circumstances to determine such a disagreement.

Since smart contracts treat the code as the law, ambiguous language can complicate the enforcement. It can be harder to find legal remedies with smart contracts.

Enforcement Issues

Automatic enforcement of smart contracts is a major point of appeal when seeking efficiency, but it also presents challenges. Automation complicates the use of legal remedies in unlawful enforcement.

Secondly, their automatic enforcement on a decentralised network makes it difficult to use legal channels to handle contract breaches. The decentralised network used by blockchain technology introduces jurisdiction issues. It can also be challenging to track down anonymous parties involved in the agreement.

Legal Complexities And The Future of Smart Contracts

Despite their legal complexities, smart contracts have significant potential to revolutionise agreements across various industries. States like [Arizona have passed laws](#) that recognise their validity in commerce. More states are discussing legislation around them.

Legalities are receiving increased attention as more people adopt blockchain technology. The solutions need to address the differences between smart and traditional contracts. Years of handling disputes arising from written contracts have helped fine-tune contract law. Smart contracts will have a similar process.

Get Legal Guidance Before Using Smart Contracts

Smart contracts are innovative and improve efficiency, making them appealing, but they also present legal complexities that could be costly for your business. Before using a smart contract, it's advisable to contact an attorney experienced in contract law [\[\[Internal link – Practice Area Page for Technology Law and Blockchain contracts\]\]](#) to help you assess enforceability risks and compliance issues.