

# WHAT IS A SMART CONTRACT

This note provides a basic overview of smart contracts. See also: [What is blockchain?](#)

## SMART CONTRACTS

- ♦ **“Smart contract”** is an umbrella term for “smarts” or computer code with no single legal definition.
- ♦ **Smart contract code** runs on certain blockchain systems (e.g. [ERC-20](#) or [ERC-721](#) using Ethereum).
- ♦ **When the pre-defined conditions** (A) are met, the blockchain ledger maintained on the network automatically updates with the pre-defined outcome (B), e.g. transfer of ether.
- ♦ **Smart contracts:**
  - are referred to as [auto-executing](#) or [self-executing contracts](#).
  - may not always form enforceable legal contracts.
- ♦ **Smart legal contracts** are a subset of smart contracts that satisfy the conditions necessary to form a binding and enforceable contract.



**Smart contracts** may be:

- ♦ **Internal smart contracts:** smart legal contracts that capture the entire agreement between the parties, e.g. a transaction on standard binary terms selling a digital asset from Alice to Bob. There are two types, those written:
  - **Fully in code** - the [code represents the whole agreement](#) between the parties, superseding explanatory human-readable clauses.
  - **Partly in code** – the code contains the operative terms of the contract and [supersedes the human readable clauses](#).

## EXAMPLES:

### Payment solutions

[BMW](#), [General Motors](#) and [Ford](#) are reportedly testing blockchain payment systems in their cars.

[Mastercard](#) is reported to have launched its own blockchain network to make cross-border payments using smart contracts.

### Voting

[AC Milan](#) fan token enables voting on soccer club motto.

[Juventus](#) and [Paris Saint Germain](#) have announced deals to create official fan tokens. This will likely encourage fan engagement and enable token holders to vote on decisions.

### Derivatives

[ISDA](#) have issued legal guidelines for [smart derivatives contracts](#) on the assumption that certain terms in the ISDA documentation can (and may be) represented in computer code or performed across a technology platform.

- ♦ **External smart contracts:** are negotiated contracts with bespoke terms and no binary outcome. Quantitative elements (e.g. token transfer, payments) may be automated. Written mainly in [human-readable language](#) that [prevails](#) over the code (an interpretation clause should state this).
- ♦ **Opinion piece:** [External contracts may more easily satisfy requirements of being enforceable legal contracts](#) under Jersey law because humans can read, understand and accept their terms.