

THE
NATIONAL LAW REVIEW

CFTC Issues Primer on Smart Contracts

Saturday, December 1, 2018

The CFTC's LabCFTC recently released "[A Primer on Smart Contracts](#)" as part of LabCFTC's initiative to engage with stakeholders on FinTech topics. The primer explains smart contracts, and explores their potential benefits — with a particular focus on the financial sector — and challenges. The CFTC has an interest in smart contracts because, as the primer suggests, smart contracts could easily be commodities or derivatives, depending upon their structure. As the primer notes, there are a range of potential benefits for smart contracts. There is potential for the code/execution of agreements to become more standardized, for better security and speed, and for new products, business models and regulatory innovation. Whereas existing paper contracts may include provisions that require the parties to undertake specific compliance and reporting obligations, smart contracts might potentially execute on those obligations.

Though the CFTC's primer emphasizes that responsible innovation is market-enhancing, it also forewarns of potential risks. The CFTC highlighted the potential for smart contracts to unlawfully circumvent rules and protections, reduce transparency and accountability, impair market integrity, and introduce operational, technical and cyber security risks, as well as potential susceptibility to fraud/manipulation.

Even if smart contracts themselves are properly coded/secure, the primer points out that there is a risk that other informational inputs (e.g., reference prices or events) upon which the contracts rely may be subject to errors or manipulation.

The CFTC has been very active in the FinTech space by providing primers on [Bitcoin](#) and consumer advisories on digital assets (e.g., [here](#)).

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Article By

[Lily Katharine Hines](#)

[Covington & Burling LLP](#)

[Cov Financial Services](#)

[Communications, Media & Internet](#)

[Financial Institutions & Banking](#)

[All Federal](#)