



## THE SMART CONTRACT PRIMER: An Initial Overview of Smart Contract Implementation within Financial Services & Regulatory Solutions for Risk Management

Published October 2024, the Smart Contract Primer provides an initial overview of what smart contracts are, how they are being implemented within financial services and proposes how to apply existing legal and regulatory frameworks to mitigate risks from utilizing such technology. Developed by the members of Global Financial Markets Association (“GFMA”) and Global Digital Finance (“GDF”), this Primer represents the broad perspectives of industry practitioners who are pioneering both research as well as the real-world implementation of distributed ledger technology (“DLT”) and smart contracts within business models across the globe.

### Key Takeaways

#### *Eight Principles of Best Practice for Smart Contract Implementation*

1. **Development and growth of internal risk and control or compliance function with appropriate resourcing;**
2. **Have a clear and proportionate incident response mechanism/policy;**
3. **Standardized requirements for smart contract audits, while working towards a template-based approach for broader smart contract standardization;**
4. **Ensure smart contracts are written in clear, well-documented code that is easy to understand and audit;**
5. **Extensively test smart contracts before deployment using various scenarios and stress tests;**
6. **Implement strong access controls to restrict who can modify or interact with the smart contract;**
7. **Integrate smart contracts with existing workflows with human intervention at critical points for added security; and**
8. **Agreement of contractual obligations between relevant parties.**

### *Calls to Action*

**Recommendation #1:** Prioritize Key Drivers of Smart Contract Interoperability Through Technical Standards and Developing a Template-Based Approach to Smart Contract Standardization

- Technical Standards
- Standardization of smart contract provisions and template-based approaches to smart contract development
- Best practice and risk-mitigation frameworks

**Recommendation #2:** Support for Utilization of Existing Technology and Operational Risk Frameworks to Regulate Smart Contract Implementation (see eight principles above)

**Recommendation #3:** Look to Future-Proof Legal and Regulatory Regimes by Providing Clarity and Support for Responsible Innovation, Addressing Where Unique Risks Arise Without Creating Special New Regimes for Smart Contracts

- Legal Clarifications
- Jurisdictional Cooperation
- Steps to Establish Liability & Intention