

## LEGAL CONSIDERATIONS OF UTILIZING CRYPTOCURRENCIES IN FRANCHISING CONTRACTS

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### **Abstract.**

*The intersection of cryptocurrencies and franchising is generating a wave of innovation and curiosity. While cryptocurrencies offer the potential for streamlined transactions, increased security, and global reach, they also bring a host of legal considerations that must be meticulously addressed in franchising contracts. In this article, we delve into key legal consequences that arise when utilizing cryptocurrencies in franchising agreements.*

### **Key words**

*cryptocurrencies, IP, digital currency, legal consequence*

**Introduction.** The rapid evolution of digital currencies, particularly cryptocurrencies, has sparked interest in their application across various industries, including franchising. As cryptocurrencies gain wider acceptance, businesses are exploring the possibility of incorporating them into their franchising contracts. However, this innovative approach comes with a host of legal considerations that both franchisors and franchisees must navigate to ensure compliance, security, and the preservation of contractual rights. In this article, we delve into the legal consequences of using cryptocurrencies in franchising contracts.

**Discussion.** Integrating cryptocurrencies into franchising contracts raises questions about the legal status of such digital assets. Traditional contracts involve fiat currency, which is universally recognized as legal tender. Cryptocurrencies, on the other hand, lack the same level of recognition, potentially impacting contract formation and enforcement.

First of all, therefore, as the correct use of cryptocurrencies in franchise agreements is established, the concepts of franchise agreements themselves and cryptocurrencies are considered from the first.

A franchise agreement is an agreement under which one party (the franchisor) grants the other party (the franchisee) the right to use its business model, trademark, patents, know-how and other intellectual property for a fee [5].

A franchise agreement is a comprehensive agreement that may include the following terms:

- The amount of the lump-sum fee that the franchisee pays to the franchisor for the right to use the franchise.
- The amount of royalties that the franchisee pays to the franchisor for the use of the franchise during the term of the contract.
- Conditions for opening and operating a franchise enterprise.
- Responsibilities of the franchisor and franchisee.
- Contract time.
- Terms of termination of the contract [10].

The franchise agreement is binding on both parties. Violation of the contract by one of the parties may lead to litigation.

Cryptocurrency is a digital currency that uses cryptography to secure transactions and protect against forgery. Cryptocurrencies are decentralized, meaning they are not controlled by a central bank or government.

The most famous cryptocurrency is Bitcoin, which was created in 2009. Since then, many other cryptocurrencies have appeared, such as ethereum, litecoin, dogecoin, etc.

The legal nature of cryptocurrency is the subject of discussion in various countries of the world [4]. In some countries, cryptocurrencies are considered financial assets, in others - goods, in others - real estate.

The legal nature of cryptocurrency in Uzbekistan is the subject of discussion. Currently, Uzbekistan does not have a special law regulating cryptocurrencies.

In 2022, the law "On payment systems and payment services" was adopted in Uzbekistan. Cryptocurrencies are not mentioned in this law. However, the law contains a provision that the payment system cannot use electronic money that is not backed by cash or foreign currency [2].

Based on this provision, some experts believe that cryptocurrencies in Uzbekistan are not means of payment and cannot be used to make payments [8]. However, other experts believe that cryptocurrencies can be classified as "electronic money not backed by cash or foreign currency."

Currently, it is not forbidden to own and use cryptocurrencies in Uzbekistan. However, the use of cryptocurrencies as payment for goods and services is a controversial issue.

Now consider the use of cryptocurrencies in franchise agreements.

The status of cryptocurrencies varies globally. Some jurisdictions recognize them as property, while others categorize them as commodities or even securities [7]. When drafting franchising contracts involving cryptocurrencies, it's crucial to understand the legal classification of these assets in the relevant jurisdictions to ensure their enforceability.

One of the defining features of cryptocurrencies is their volatility. The value of cryptocurrencies can fluctuate dramatically within short periods, posing challenges for both parties involved in franchising contracts that utilize them as a form of payment.

If we consider in detail the payment mechanism in franchise agreements, franchising contracts typically involve ongoing payments, such as royalties and fees. Using cryptocurrencies as payment introduces technical complexities related to transaction speed, confirmation times, and network fees, which may impact the timing of payments.

Moreover cryptocurrencies operate in a regulatory grey area in many jurisdictions. Franchisors must carefully navigate existing financial regulations, anti-money laundering (AML) laws, and know-your-customer (KYC) requirements when incorporating cryptocurrencies into their contracts.

Also, franchising often involves consumer transactions. Using cryptocurrencies may complicate consumer protection measures, as they can be irreversible, potentially leaving customers with fewer options in cases of disputes or dissatisfaction [1].

Although cryptocurrency transactions are pseudonymous, not truly anonymous. Franchisors must consider data privacy regulations and the potential exposure of transaction details when incorporating cryptocurrencies into their franchising contracts.

Franchise agreements usually outline exit strategies for both parties. The use of cryptocurrencies may complicate matters, as the value of these assets can fluctuate significantly, impacting the settlement of financial obligations during the termination of a contract.

One more challenge for using cryptocurrencies in franchise agreements is that franchising often involves parties operating in different jurisdictions [9]. Cross-border cryptocurrency transactions may trigger tax implications, foreign exchange considerations, and conflicts between various legal frameworks.

Moreover, franchising contracts frequently involve the transfer of intellectual property rights. Navigating the intricacies of cryptocurrency transactions while ensuring the proper transfer of IP rights requires careful legal planning.

Cryptocurrency transactions can be irreversible, potentially affecting the options for dispute resolution. Parties must establish clear procedures for resolving conflicts arising from the use of cryptocurrencies in franchising contracts.

**Conclusion.** The use of cryptocurrencies in franchising contracts presents exciting opportunities for innovation but also poses significant legal challenges. From contract formation to regulatory compliance, both franchisors and franchisees must carefully consider the legal implications and seek expert guidance to ensure the successful integration of cryptocurrencies into their franchising operations. As the cryptocurrency ecosystem continues to evolve, a proactive and informed approach is essential for harnessing the benefits of this emerging technology while safeguarding contractual rights and obligations.

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