



# Kleros Escrow General Policy

## General Rules

### Purpose

This document outlines the policy rules for disputes related to transactions conducted through [Kleros Escrow](#), a platform that uses a smart contract escrow system designed to facilitate the seamless exchange of goods and services between third parties.

### Voting Options

**1. Refund the Buyer:** Buyer pays (amount) instead of (amount), gets the arbitration fees back.

Select this option if **ALL** of the following requirements are met:

- A. The buyer is entitled to a refund according to this policy.
- B. The requested amount is a **reasonable approximation** of, or does not exceed, the refund the buyer is entitled to receive.
- C. The requested amount is more reasonable than the amount the seller is claiming.

**Example:** Bob and Alice entered into an agreement for the development of a custom software system with four key features. Bob argues that since one feature is damaged, which represents only a  $\frac{1}{4}$  part of the overall service, he is entitled to 75% of the funds in escrow. Alice, however, proves that the issue with the damaged feature is critical because it affects the overall functionality of the entire system. If left unaddressed, the system would be unusable. Alice demonstrates that hiring another developer with similar skills to fix the problem would cost significantly more than the 25% Bob is requesting, and therefore requests a reasonable estimation of the cost to properly rectify the issue, which is higher than the amount Bob claims. In this case, the jurors should rule in favor of Alice, as the damage to the system and the cost of rectification exceed Bob's claim.

**2. Pay the Seller:** Buyer pays (amount), Seller gets the arbitration fees back.

Select this option if **ALL** of the following requirements are met:

- A. The seller is entitled to receive the requested payment amount according to this policy
- B. The requested amount is a **reasonable approximation** of, or does not exceed, the payment the seller is entitled to receive.
- C. The requested amount is more reasonable than the amount the buyer is claiming.

**Example:** Bob hires Alice to develop a set of smart contracts for a DeFi project for 5 ETH. Alice delivers the project on time and as specified. However, due to a prolonged bear



*market, the protocol's planned token launch is no longer viable, and the project is shut down. Bob refuses to release payment, arguing that the work is now useless and offers Alice only 50% of the agreed amount. However, general market downturns are not considered force majeure or unforeseen circumstances, as they are part of the inherent risks of the industry. Since Alice fulfilled her contractual obligations, Bob bears the risk of the project's viability, not Alice. Jurors should therefore rule in favor of Alice receiving the full 5 ETH.*

**3. Refuse to Arbitrate:** Select this option if none of the above options applies **OR** if one of the applicable Court's Policy's "Refuse to Arbitrate" events applies.

**Example:** *Dispute is related to an assassination contract, which qualifies as an immoral activity under the General Court's policy. In this case, it is mandated to Refuse to Arbitrate.*  
**Example:** *Both the buyer and seller propose amounts that are equally unreasonable. For example, the buyer requests a full refund of the funds in escrow, and the seller demands the full payment. However, the contract terms state that if the seller fails to deliver the service, compensation should be valued proportionally to the completed work. In this case, jurors determine that they should respect the damage valuation agreed upon by the parties, and since the seller only fulfilled almost half of the agreed-upon service, the fair payment would be 50% of the funds. Therefore, both claimed amounts equally exceed what either party is entitled to, so jurors should Refuse to Arbitrate.*

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## Detailed Rules

### Definitions

- **Agreement:** Any agreed terms between the buyer and the seller that is related to use of the escrow.
- **Contract Terms:** the text data that the creator of the escrow included in the escrow at the moment of its creation, and that summarizes the nature of the agreement.
- **Uploaded Agreement:** the written agreement or other document that can be uploaded as part of the escrow at the moment of its creation.
- **Claim:** submission of the dispute to Kleros to execute all or part of the payment, or solicit the refund of all or part of the payment.
- **Buyer:** the party that locked their funds in the escrow and agreed to send to the Seller upon fulfillment of certain agreed conditions.
- **Seller:** the party that may receive the funds in the escrow upon fulfillment of certain agreed conditions.
- **Settlement offer:** the offer made by any party to reduce the total payment amount.
- **Payment:** the crypto-assets locked in the escrow.
- **Preponderance of Evidence:** an amount and quality of evidence by which the underlying fact is more likely to be true than false.
- **Escrow:** the smart contract escrow created by the parties using Kleros Escrow.

### The Agreement & applicable rules

#### 1. The Agreement is law

Jurors must base their rulings on the agreement between the parties prior to the initiation of the claim, and any provision of their agreement shall prevail over any rule in this policy, except for section 16 when there is a consumer relationship. In addition, no provision of the agreement may override any non-supersedable rule of any applicable court policy, including the General Court's Policy and the policy of the court handling the specific dispute.

**Example:** A dispute arises and one party submits new evidence after the initial round's evidence period has ended. The agreement between the parties states that "all evidence, regardless of timing, must be considered by jurors." However, the General Court's Policy states that jurors must disregard late-submitted evidence unless it was publicly available beforehand. In this case, jurors must follow the General Court's rule, even though the agreement says otherwise.

#### 2. Interpretation of rules



When interpreting the meaning of the agreement, jurors must consider the perspective of a reasonable person with the qualifications and expertise of the parties involved.

**Example:** *In a contract in which someone sells his TV to a third party, jurors should apply an average reasonable person standard, however, in a smart contract development contract between a solidity developer and a technically specialized client, jurors must interpret the contract as any other diligent developer would.*

### **3. Conflict of rules**

In the event of any conflict between the terms of the uploaded agreement linked and the contract terms, the uploaded agreement must prevail.

In the event there is no uploaded agreement linked to the escrow, the dispute resolution must be based on the contract terms.

In instances where there is no explicit agreement or when both parties provide equally credible but contradictory evidence regarding the terms of the agreement, jurors must rule according to this policy, considering:

- A. The nature of the transaction and the specific services or products being exchanged.
- B. The uses and customs applicable to the particular transaction.
- C. Good faith principle: jurors must rule in a way that honors and incentivizes good faith and ensures fair dealing.

### **4. Amendments to the agreement.**

Parties might modify the terms of their agreement by mutual consent after the creation of the escrow and this new agreement must rule their relationship.

### **5. Declarations and Consent**

Any declaration or act by the recipient that reveals acceptance of an offer constitutes acceptance. Silence constitutes acceptance only when there is a duty to respond, which may arise from the agreement, from usage or practices established between the parties, or from a relationship between the current silence and prior statements.

**Example:** *A buyer sends a message proposing to modify the scope of deliverables in a software development project, requesting that one feature be replaced with another. The seller doesn't explicitly accept but begins working on the replacement and delivers the modified product. By starting the work and delivering the modified deliverables, the seller's actions imply acceptance of the modified terms.*



## Claim Acceptance Criteria

### 6. Criteria for claim acceptance

Entitlement to a refund or payment must be granted if the following requirements are met:

- A. There is a **breach of contract** by the other party.
- B. The **claimed amount is a reasonable approximation** of, or does not exceed, the exact valuation of the actual damages (for refunds) or the payment amount the seller is entitled to receive.
- C. The claimed amount is **more reasonable than the amount the other party is claiming**.

### 7. Breach of contract:

Breach of contract must be determined in cases such as, but not limited to, when:

- A. The promised goods or services were not delivered by the seller.
- B. The delivered goods or services do not meet the minimum average quality standards or the agreed specifications for the particular good or service exchanged.
- C. The seller delivered part of the goods or services but not all of them.
- D. The seller has fulfilled their obligations and the buyer does not release the payment.
- E. The goods or services were not delivered due to the buyer's fault, and the seller made reasonable efforts to deliver the goods or services.
- F. The other party failed to comply with any other contractual obligation.
- G. The other party failed to meet an implied obligation, such as exercising due care while providing the service.

**Example:** *A moving company damages a customer's furniture due to reckless handling, even though the contract doesn't explicitly mention a duty to transport items safely, this is an implied obligation.*

### 8. Types of Damages

If a party breaches the agreement or causes harm, the affected party may claim compensation (damages) for the harm suffered.

Jurors should consider whether the harm was foreseeable, reasonably proven, and a result of the breach.

Unless otherwise agreed by the parties, the following types of damages may be claimed:

- A. Direct Damages: These are losses that result directly from the breach or harm and are the natural outcome of it.



**Example:** A seller fails to deliver the product so the buyer is entitled to a refund.

- B. Consequential or Indirect Damages: These are losses that are not the immediate result of the breach, but happen as a consequence of it, usually because of the specific circumstances of the affected party. Consequential damages must also have been reasonably foreseeable by the breaching party at the time of entering the agreement.

**Example:** A freelancer contracts to receive a tool on time for a project. The seller delivers late, and the freelancer loses a client. They may claim for the lost income because the buyer proved the seller knew that the tool was going to be used for that project.

- C. Loss of Opportunity: A party may claim damages for loss of opportunity when the breach prevents them from taking an action they were reasonably expected to take and that would likely have resulted in a benefit (e.g., earning money or securing a transaction). The opportunity must be concrete and credible, not merely hypothetical. Claims must be supported by evidence showing the party's intent and ability to pursue the opportunity. The lost opportunity must also have been reasonably foreseeable by the breaching party at the time of entering the agreement.

**Example:** A buyer and a seller sign an agreement: the buyer will release 10,000 USDC in exchange for an equivalent amount in fiat currency. The agreement states that the fiat will be used by the buyer to purchase specific stocks. The seller delays the fiat transfer without justification. During the delay, the price of the target stocks increases significantly. The buyer claims damages for loss of opportunity, arguing they could have purchased the stocks at a lower price if the fiat had arrived on time. They support this with the agreement itself, chat messages referencing the planned stock purchase, and screenshots of the price difference. The buyer seeks compensation equal to the profit they could have reasonably earned had the purchase occurred on time.

- D. Moral Damages: If the breach causes distress, humiliation, or other non-financial harm, these are awarded exceptionally and must be clearly justified.

**Example:** A person's private data is leaked due to negligence in a contract. If the exposure caused them anxiety or emotional harm, they may claim moral damages.

### Limits to Damages:

- A. Damages must be a reasonably foreseeable consequence of the breach at the time the agreement was made.
- B. The damaged party must have taken reasonable steps to mitigate the harm. If they fail to do so, any avoidable portion of the harm should not be compensated.



- C. When this policy recognizes compensation for a delay (as in Section 15 of this Policy), such compensation is deemed to cover the direct damages caused by the delay but the damaged party may seek compensation for other distinct damages arising from the breach.

**Example:** Buyer is entitled to compensation for the delayed release of FIAT under a crypto to fiat exchange agreement. They cannot claim further damages for that same delay, but may still claim for a separate loss, such as loss of opportunity if this loss meets the above mentioned requirements.

## 9. Valuation of damage criteria

To accept the claim, jurors must verify that the claimed amount is a reasonable approximation of, or does not exceed, the exact valuation of the actual damages.

If the parties had already agreed on the damage valuation in their agreement, jurors must respect the valuation. If no provision is found, then jurors should consider the following criteria for determining the valuation of damages:

- A. Rectification criteria: Jurors should assess the appropriate cost of rectifying the breach of contract for the damaged party, considering the rectification as if it were done under similar conditions to the original agreement.

**Example:** The buyer hires the seller to provide design services, including logo creation, website design, and marketing materials, for a total of 2000 Dai. Upon delivery, the logo does not meet the agreed-upon specifications, but the website and marketing materials are satisfactory. To rectify the logo issue, jurors must consider the cost the buyer would incur to hire a new designer with similar qualifications and experience as the original designer to correct the logo design.

- B. Essential obligation: Jurors must consider the type of obligation that was not fulfilled by the defendant. If it is proven that the defendant did not comply with an essential obligation it must be presumed the damages to be equivalent to the total payment amount, unless the breaching party provides evidence to the contrary.

- C. Non-essential obligation: If the defendant failed to comply with a non-essential obligation, the claim should be accepted if the resulting damages were foreseeable at the moment of contracting. If not, those damages must not be considered in the valuation of the damage, unless the breach of contract was done with bad faith.

**Example:** The seller agrees to transport the client to its destination in exchange for the payment. The seller is delayed 2 minutes due to a traffic accident and while the buyer was waiting for the seller, someone steals their bag with expensive jewelry. In this case, the seller might be discounted for the small delay but it shouldn't bear the cost of the jewelry given that it was not foreseeable and the delay was not done with bad faith. However, if the buyer specified that he would be transporting





*something of value and that compliance with the timeline was fundamental, it would have been a foreseeable damage.*

- D. Reasonable approximations: When valuation of damages is complex, jurors must allow a wider margin of error in valuation. The more complex it is for the party to determine the exact damages, the greater the margin of error that should be permitted. Conversely, when determining the damages is straightforward, a stricter approach should be applied.

**Example:** *The buyer books a 5-night stay at a beachfront apartment for 500 Dai but is relocated to a city hotel for the first 2 nights due to overbooking. The seller claims a refund of 120 Dai, estimating the lost beachfront experience at 60 Dai per night. The city hotel ranges from 50 to 60 DAI per night (depending on the website), and the original beachfront hotel from 100 to 120 DAI per night. Since the claimed refund falls within a reasonable valuation range, jurors should vote to refund if it's more reasonable than the seller's pretention.*

## 10. Currency Conversion

- A. Currency conversion in Valuation of Damages: When assessing the valuation of damages in escrow disputes, jurors must use the value of the crypto-asset at the time the dispute was initiated, disregarding any fluctuations in the crypto-asset's value after the dispute initiation.

**Example:** *Bob requests a 0.1 ETH refund after proving that to fix a seller's error, he would need to hire another provider at a cost of USD 400. Alice argues that the work was done properly and requests the full amount of 1 ETH in escrow. At the moment Bob offered a settlement, the value of 0.1 ETH was equivalent to USD 400. 2 minutes before Alice initiated the dispute, the value of ETH increased by 2%, but before Bob could adjust his claim, Alice proceeded with the dispute. Then, 12 hours after the dispute initiation, the price of ETH increases by 30%. Jurors consider the rectification cost of USD 400 as a reasonable approximation, and at the time the dispute was initiated, USD 400 equaled 0.098 ETH. They disregard the 30% fluctuation after the initiation of the dispute and accept Bob's claim, allowing for the initial 2% fluctuation as a reasonable margin of error, as it was not due to bad faith but rather the timing of Alice's dispute initiation before Bob could adjust.*

- B. Fixed Compensation by Policy: Only when this policy specifies that a certain amount or percentage of the payment should be awarded to a party, this compensation must be calculated using the crypto-asset used in the escrow, regardless of fluctuations in its value. In cases where no such fixed compensation is predefined by the policy, parties may value damages by converting them into the crypto-asset value up to the moment of dispute initiation, but not based on fluctuations that occur after that point.

**Example:** *This Policy specifies that the Buyer should receive a refund of 10% of the escrow funds if there is a minor delay in service provision. The total escrow is 1 ETH. During the contract's execution, ETH drops by 50%. There is a minor delay, and even*





*though the buyer argues that ETH is now worth half of the initial value, jurors must calculate the refund as 10% of 1 ETH, which remains 0.1 ETH, irrespective of the 50% drop in ETH value during the contract execution.*

## 11. Essential obligations

An obligation must be considered essential if it meets any of the following criteria:

- A. The fulfillment of this obligation is the primary reason the parties entered into the agreement.

**Example:** *In a transaction of sale of a computer, the main obligation of the buyer is to pay the price to the provider, and the main obligation of the seller is to deliver the computer. If the seller sends a broken computer, it is deemed to have violated an essential obligation.*

- B. It is determined as essential by the parties.

**Example:** *In a software development project, parties might determine that certain specifications of the application being developed are considered fundamental and therefore, delivering a functioning application but without that specific functionality would imply a violation of an essential obligation.*

- C. It has been violated with clear intention.

**Example:** *A tenant rents an apartment with a microwave listed in the inventory. After moving in, the tenant notices it's missing and requests a replacement. The landlord, despite multiple reminders, intentionally refuses, replying, "I don't have time to send a microwave." This intentional neglect of the tenant's request, even though the microwave might be a non-essential item, becomes an essential breach of the agreement.*

- D. When an obligation is related to timelines for fulfillment, it is considered an essential obligation if either:

- I. The deadline was explicitly established by the parties as an essential obligation within the agreement;
- II. Due to the nature of the transaction, it is inherently understood that a delay constitutes a breach of an essential obligation; or
- III. The violation of the obligation can be classified as a "Major Delay" according to Section 15 of this Policy.

**Example of D.I:** *The buyer contracts with the seller to create a video as part of an electoral campaign for the value of 500 Dai. The seller has been expressly informed that the purpose of the video is to facilitate the electoral campaign and is notified of its deadline. The seller fails to deliver the video on time, and by the time the seller finally delivers the video, the elections are over. In such a case, even if it was not explicitly stated, because there is no possibility for the buyer to*



*rectify the situation or rehire the service due to the end of the electoral cycle, the jury shall award the buyer 500 Dai.*

**Example of D.II:** *In a supply contract for fresh fish, even if no specific delivery timeline is agreed upon, a delay of one week in delivering the fish without proper freezing or refrigeration would still constitute a breach of an implicit obligation.*

## 12. Agreement termination

Unless otherwise agreed by the parties, termination of the agreement is permitted under the following circumstances:

- A. **Mutual Agreement:** Both parties consent to terminate the agreement.
- B. **Long Term Agreements:** In long-term or periodic agreements, unilateral termination must be permitted with reasonable advance notice. The notice period must be sufficient to allow the non-terminating party to adjust to the termination without undue harm. The notice period should be considered reasonable based on factors such as industry standards, the duration and complexity of the contract, the nature of the obligations, and the reliance the non-terminating party has on the continued performance of the contract.
- C. **Essential obligation Breach:** A party substantially fails to perform an essential obligation, depriving the other party of the expected benefits.
- D. **Mistake:** A serious error in the agreement's terms affects the parties' understanding of their obligations.

**Example:** *Party A (the seller) agrees to sell a vintage painting to Party B (the buyer) for \$50,000, believing it is an original work by a famous artist. After the sale, the buyer discovers the painting is a reproduction, not an original. The seller made an error about the painting's authenticity, which was crucial to the contract's value.*

- E. **Duress or Undue Influence:** A party entered the contract due to coercion or improper pressure.

**Example:** *A buyer agrees to purchase a house from the seller after the seller threatens to harm the buyer's family unless the transaction is completed immediately. The buyer, under extreme pressure and fear for their family's safety, agrees to the terms. In this case, the buyer can seek rescission of the contract due to duress, as the agreement was made under threat, and the buyer was not acting freely, and the buyer could be entitled to a refund of any payments made.*

- F. **Force Majeure or Unforeseen Circumstances:** Unforeseen events make performance impossible or radically different from what was initially agreed. In this case, section 17 applies.

## 13. Effects of Termination



1. If the breach is of an essential obligation, the non-breaching party is entitled to terminate the agreement and claim damages for any harm caused by the breach.

**Example:** *If the seller fails to complete a key part of a construction project, the client may terminate the contract and claim damages for the unfinished work and delays caused by the breach.*

2. If the breach is of a non-essential obligation, it does not trigger the option to terminate the agreement. However, the non-breaching party is still entitled to claim damages for any losses or harm suffered as a result of the breach.

**Example:** *If a rented apartment is missing a coffee table from the inventory, the tenant can't terminate the lease just for that. However, they may still claim a partial refund if the missing item caused inconvenience.*

3. Termination without reasonable cause will give the non-terminating party the right to claim damages for any harm caused by the unlawful termination.

**Example:** *If a client unilaterally cancels a one-time service contract with a contractor without valid reason, the contractor may claim to deduce from the funds in escrow the damages for the loss of income, the proved costs incurred in preparation for the service, and any concrete missed opportunities due to the sudden termination.*

4. Termination with cause but without reasonable advance notice, when required by the policy or the agreement, will give the non-terminating party the right to claim damages suffered as a result of the untimely termination.

**Example:** *If an employer fires an employee for cause but fails to provide the required 30 days' notice as stipulated in the employment contract, the employee may be entitled to claim damages for the loss of income during that notice period.*

## 14. Restitution Upon Termination of Agreement

### A. General Principle

If an agreement is terminated and one party has received a benefit without providing the corresponding consideration, they must restore what they received to return both parties as closely as possible to their pre-contractual state.

**Example:** *A buyer purchases a laptop, but upon receiving it, and according to what's allowed in the agreement, decides to terminate the agreement, so they return the laptop and solicit a full refund.*

### B. Termination for Breach of an Essential Obligation



If an agreement is terminated due to a party's breach of an essential obligation, the non-breaching party must still comply with the general restitution principle but may also claim damages for any resulting inconvenience.

**Example:** A buyer purchases two laptops, but one arrives defective. The buyer must make the defective laptop available for return but may also claim compensation for the delay and inconvenience caused.

### C. Impossibility or Excessive Burden in Restitution

- I. If restitution in kind is impossible or excessively burdensome (e.g., services rendered, perishable goods, irreversible modifications), it is converted into monetary compensation equivalent to the benefit received.

**Example:** A consultant completes one month of a three-month service contract before termination. Since the service cannot be returned, the consultant is entitled to payment for the completed work.

- II. If termination occurs due to the other party's breach of an essential obligation and restitution is impossible or unreasonably burdensome, the breaching party is not entitled to compensation.

**Example:** A seller delivers perishable goods that are significantly below agreed quality standards. If the buyer makes them available for return but the goods perish before they can be collected, the buyer is entitled to a full refund.

- III. If the item subject to restitution has defects or issues, the buyer may choose to:
  - a) Keep the item and deduct the defect's value from the owed amount, or
  - b) Return the item and claim compensation for the inconvenience.

## Specific Events

### 15. Delays

If a delay does not constitute a fundamental breach, the buyer is entitled to proportional compensation. Unless otherwise agreed:

- A. Minor Delays: Small delays that do not significantly impact the contract's purpose or the buyer. Compensation:
  - I. Up to 10% of the total service value.
- B. Major Delays: Significant delays that substantially impact the contract's purpose or buyer. Compensation:



- I. Up to 20% of the total service value.
- II. The buyer may also cancel the service and receive the appropriate refund.
- III. If the buyer proves additional direct damages that result from the delay, they may receive further compensation up to 50% of the contract value.

**Example:** A developer agrees to build a website in two weeks for \$1,000 but takes two months. The buyer requests \$300: \$200 for the delay (20%) and \$100 for lost business, proven with evidence.

- C. Buyer Delays: If the seller delivers on time but cannot complete the service due to the buyer's unavailability. If after making reasonable efforts the buyer remains unavailable, the seller may claim incurred costs and lost earnings.

**Example:** A software consultant schedules an implementation meeting with the buyer at 10:00 AM but receives no response. After waiting 30 minutes and making multiple contact attempts, the seller logs off. They may claim compensation for wasted time.

## 16. Consumer Relationship

- A. A consumer relationship exists when one party (the consumer) acquires goods or services for personal, family, or household use from another party (the provider) who is offering the goods or services in the course of business or a professional capacity.

**Example:** Bob purchases an online course from a freelance educator offering services for personal development. The educator is acting in a professional capacity, and the consumer is purchasing the course for personal use.

**Example:** Bob offers digital marketing services to a large company. The company hires the freelancer for business purposes, and the freelancer provides services as part of their professional capacity to the business. This is a business-to-business (B2B) transaction, not a consumer relationship.

- B. Abusive Clauses: Only when there is a consumer relationship, an agreement clause is considered abusive and must not be applied if it creates a clearly unjustified imbalance in the parties' rights and obligations to the detriment of the consumer and violates the duty of good faith. Abusive clauses include but are not limited to:
- I. Clauses that exempt or severely limit the seller's liability for product or service defects.
  - II. Clauses that require the buyer to waive basic consumer rights such as the right to receive accurate information about the product/service being acquired or the right to safety.
  - III. Clauses that allow the seller to unilaterally modify agreement's terms.

However, in cases where the consumer is specialized or has significant expertise in the area of the purchased goods or services, the level of protection afforded to the consumer should be reduced.



**Example:** A professional personal trainer buys a home fitness machine, which comes with basic setup instructions and lacks detailed maintenance advice. The trainer uses the machine frequently in workouts, leading to its breakdown due to insufficient maintenance. Although the trainer claims the manufacturer didn't provide enough information, jurors should consider if the trainer with his expertise should have known how to maintain it properly.

## 17. Force Majeure

- A. Force Majeure: refer to events that could not have been anticipated or, if anticipated, could not have been avoided. Force majeure or unforeseen circumstances exempt from liability unless otherwise agreed upon.

**Example:** natural disasters, wars, government-imposed lockdowns, etc.

- B. Exemption from Liability:
- I. Provider: If the provider is unable to deliver the service due to a force majeure event, they are exempt from fulfilling the obligation for the duration of the event and, therefore, not liable for the delay.
  - II. Customer: If the customer is unable to receive the service or make payment due to the event, they are also exempt from their obligations for the same period, and they are not liable for the delay.
- C. Termination of Agreement: If the event is prolonged and permanently prevents the provision or receipt of the service, either party may terminate the contract without penalty.
- D. If the goods or services that are the subject of the agreement are destroyed or damaged due to the force majeure event, or costs directly attributable to the preparation of the services were incurred, the party that incurred the cost may deduct up to 50% of those costs or the value of the lost goods from the payment, up to 50% of the funds in escrow.

**Example:** Bob, a seller of custom furniture, enters into an agreement with a buyer to deliver a set of chairs. However, during production, Bob claims that an accident in his factory resulted in a fire, causing the destruction of the materials needed for the order. Although Bob can prove the fire occurred, this is considered part of the normal risks associated with his business operations and does not qualify as force majeure. Therefore, Bob, as the seller, is still responsible for bearing the loss of the goods, and the buyer is entitled to a refund or replacement.

**Example:** A buyer pays 1,000 DAI for catering services for a birthday party, but the event cannot take place due to the Covid-19 pandemic. The seller proves they incurred 400 DAI in costs for specific food purchases for the event. In this case, the seller may claim 200 DAI given that it's half of the incurred costs and is less than 50% of the funds in escrow.

## 18. Impossibility





If one of the parties to a contract faces excessively disadvantageous economic conditions due to a force majeure event, they may request rescission of the agreement or a reasonable settlement without liability for that party.

**Example:** A person signs a contract to provide services for a year, but due to an unexpected war in the only country that manufactures the products agreed upon for the service, costs rise by 500%. This person could request the rescission of the agreement.

## 19. Service Variations

If the service has been contracted for a fixed price or by a unit of measure, neither party may unilaterally modify the fixed price or unit of measure based on the service requiring more or less work or its cost being higher or lower than anticipated, except in cases outlined in Sections 16 and 17, or if the other party agrees to the new price.

Regardless of the contract system, the seller cannot change the accepted service and price without the authorization of the buyer, unless the modifications are necessary to execute the work according to the minimum quality standards and could not have been anticipated at the time of contracting. The need for such modifications must be immediately communicated to the buyer, along with an indication of the estimated cost. If the variations lead to an increase exceeding one-fifth of the agreed price, any party may terminate the agreement by notifying their decision within a reasonable period after being informed of the modification's necessity and estimated cost.

The seller may introduce minor variations to the service without notifying the buyer as long as they do not substantially alter the nature of the service.

**Example:** A buyer brings their car to a seller (mechanic) for a brake pad and rotor replacement, with a fixed price of \$800. While performing the service, the seller discovers that the brake calipers are also damaged and must be replaced to meet minimum safety standards—something that couldn't have been reasonably foreseen because the damage was internal and only visible once the wheels and rotors were removed. The seller cannot modify the agreed price unilaterally but, since the change is necessary to complete the service properly, informs the buyer immediately and provides an estimated additional cost of \$250. Because the variation exceeds one-fifth of the original price, the buyer has the right to terminate the contract by notifying the seller within a reasonable time after being informed. If the seller had already completed part of the original service, they are entitled to receive payment for that portion.

## 20. Earnest Money

If the funds in escrow are provided as earnest money for a future agreement, the party terminating the escrow agreement or opting not to proceed with the final agreement is entitled to the full amount of the escrow funds.

**Example:** In a real estate contract, the buyer deposits funds in escrow to secure the agreement and it's stipulated in the contract terms that the funds are earnest money. If the





*buyer decides not to proceed with the purchase of the house at the end, the seller is entitled to the full amount of the earnest money in escrow.*

## **21. Evidence**

- A. Jurors must consider all evidence submitted by the parties and assess its authenticity.
- B. Jurors must rule based on the “preponderance of evidence” standard.
- C. All documents relevant to the dispute must be made timely accessible and discoverable during the evidence period. If not, jurors shall disregard that document entirely.