SHERLOCK

Sherlock Audit + Coverage Overview

Details

Protocol Customer: Hook Protocol
Branch: main (https://github.com/hookart/protocol/tree/main)
Covered Contract(s):

- BeaconSalts.sol
- Entitlements.sol
- HookStrings.sol
- Signatures.sol
- TokenURI.sol
- EIP712.sol
- HookInstrumentERC721.sol
- PermissionConstants.sol
- HookBeaconProxy.sol
- HookCoveredCallFactory.sol
- HookCoveredCallImplV1.sol
- HookERC721MultiVaultImplV1.sol
- HookERC721VaultFactory.sol
- HookERC721VaultImplV1.sol
- HookProtocol.sol
- HookUpgradeableBeacon.sol

Protocol Code Commit hash: c49350a455760ac9cab2fc942dd2c2f62355e0d1
Audit Start Date: 2022.06.16
Coverage Agreement Start Date: 2022.08.25
Audit Cost: 70,000 USDC
Total Coverage Amount: 10,000,000 USDC
TVL Coverage Premium: 2.0%, per year
Current TVL: The lesser of 10,000,000 USDC or the TVL of Protocol Customer
TVL Coverage Provided for the Following Chain(s): Ethereum Layer 1
Size of Bug Bounty: 10% of Total Coverage Amount
Bug Bounty Coverage Premium: 0.0%, per year

Duration of Coverage: 6 months
Claims to be paid in: USDC

Glossary

Protocol Code - The contract(s) listed under "Covered Contract(s)" above
Protocol Agent Address - The smart contract address provided to Sherlock, which is the address from which all claims are made and payments in connection with successful claims are received by the Protocol Customer
Current TVL - The total value locked in the Protocol Customer's Covered Contract(s) (as defined above) as measured every (2) weeks by Sherlock
Staking Pool - The total value of all tokens (USDC, etc.) held in the Sherlock's V2 staking contracts

Sherlock Audit Process

To qualify for a Sherlock audit, the Protocol Customer will first agree to meet all the requirements in the Sherlock Audit Requirements Checklist at the time of audit. The Protocol Customer will then put down a deposit of 50% of the Audit Cost to reserve its time slot.

Upon completion of the audit, the Protocol Customer will pay the remaining 50% of the Audit Cost to Sherlock. After full payment, Sherlock will release the full audit report to the Protocol Customer, which will also be made public.

Audit Cancellation and Rescheduling

A Protocol Customer may submit a request to cancel or reschedule their audit at any time before the audit start date, and Sherlock will make every effort to either 1) swap a Protocol Customer's audit slot with another Protocol Customer at a later date, or 2) negotiate with the pre-assigned auditor to delay the currently scheduled audit to a later date. Due to Sherlock's arrangement with external security experts, and the audit demand of other Protocol Customers, Sherlock is unable to guarantee that a request to cancel or reschedule an audit will be granted, but Sherlock will try its best.

Supplemental Audit Needs

During the course of a Protocol Customer's Duration of Coverage, Sherlock understands the need for protocols to make additional small changes to their code and seeks to be there to support its Protocol Customer's desire to innovate. Protocol Customers who engage with Sherlock for their audit needs will have access to 1-2 interim updates during the course of their Duration of Coverage. Sherlock will make best efforts to schedule these updates with the same auditors who originally audited the Protocol Customer's code. These additional reviews on new code can be done "at-cost", and are required if the Protocol Customer wishes to extend coverage to the updated contracts.. As a general rule of thumb, these 1-2 smaller "at-cost" audits can be done for changes that are <200 nSLOC. Anything larger will require scheduling a complete audit with either Sherlock or an approved external auditor in order to maintain eligibility for coverage on the new contracts.

Sherlock TVL Coverage

If Sherlock has agreed to provide coverage on the Protocol Customer's Current TVL, this coverage will begin within 14 days of the audit's completion and last for the length of the Duration of Coverage defined in *"Details" section* above.

Please see the section below, *"The Spirit of Sherlock Exploit Protection"*, for a more detailed discussion around the types of smart contract and economic risks Sherlock views as covered events.

In the event of a covered smart contract exploit or economic exploit, the Protocol Customer can submit a claim and be reimbursed for lost funds up to the stated Coverage Amount. Please see the sections *"Claim Validity"*, *"Sherlock Claims Process"*, *"Paying a Claim"*, and *"Deciding on Claims"*, below for more detail.

In the unlikely event that Sherlock's Staking Pool TVL drops below the Coverage Amount agreed upon with the Protocol Customer, the Coverage Amount will be temporarily decreased to 100% of the Staking Pool TVL until the situation is remedied. This means the Protocol Customer will never overpay for their current coverage.

Coverage Premium Pricing

Coverage premium pricing is defined above in the "Details" section. If a range was given for the "Coverage Premium" field on page 1, then a specific premium amount will be

chosen in consultation with the Protocol Customer's assigned auditors after the initial audit has been completed. Sherlock reserves the right to not provide coverage and refund any coverage payments if the auditors don't feel comfortable with any premium amount in the agreed-upon range after their audit has been completed.

Sherlock only charges the TVL Coverage Premium on the *lesser* of a Protocol Customer's Current TVL and Coverage Amount.

Bug Bounty Coverage

At the completion of the audit, the Protocol Customer will implement a bug bounty program with a bounty valued at "Size of Bug Bounty" defined in the "Details" section on page 1 through Immunefi, or an alternative platform agreed upon by Sherlock and the Protocol Customer. Bug bounty pricing is defined in "Details". Typically, if a protocol purchases TVL Coverage + Bug Bounty Coverage, the Bug Bounty pricing is baked into the cost of the Coverage Premium. Sherlock will cover the payouts associated with valid critical submissions. Covered bug bounty claims are generally characterized by vulnerabilities that, if executed on mainnet, would have resulted in a payout as defined by the sections "Claim Validity", "Sherlock Claims Process", "Paying a Claim", and "Deciding on Claims" below.

Initiating and Maintaining Active Coverage

Unless specified otherwise in Coverage Agreement Start Date defined in *"Details" section* above, the Protocol Customer must initiate their coverage within 14 days of the audit being finished.

To initiate coverage, a Protocol Customer should send a deposit to Sherlock's smart contract address defined in the *"Payment Process"* section, for at least 3 months worth of payment assuming the Protocol Customer's TVL reaches the maximum Coverage Amount.

Since Sherlock only charges premiums on the lesser of a Protocol Customer's Current TVL and Coverage Amount, Sherlock will calculate the required accumulated premium debt of the Protocol Customer over the course of a month, and draw down on the deposit.

Over the course of 6 months, the Protocol Customer will need to increase their payment to the Sherlock payment account if the difference between the "active balance" of funds and the accumulated premium debt is less than $500, as they run the risk of being temporarily removed from coverage. The coverage will end at the first block after the protocol is removed from coverage. For the avoidance of doubt, even if the Protocol Customer is not currently under coverage, an exploit that occurred during a block before the coverage ended is still valid and Sherlock *will* properly assess and pay out that claim when necessary.

At the end of the 6 month coverage period, the Protocol Customer can remove any "unused" funds in their deposit, or request a refund from Sherlock, which will be paid back to the Protocol Customer at an address provided. Alternatively, if a Protocol Customer will be extending coverage for another 6 months, the funds deposited may remain and rolled into the next coverage period.

Sherlock designed this payment philosophy to help Protocol Customers stay capital efficient and avoid "overpaying" for coverage they don't use. Submitting a premium deposit sufficiently large helps to avoid the Protocol Customer from running the risk of a spike up in TVL, requiring the Protocol Customer team to quickly increase their "active balance", so they are not temporarily removed from coverage until they fund their account.

The Protocol Customer is prohibited from making material changes to the Protocol Code which have not been approved and audited by either Sherlock's Watsons (see section above on "Supplemental Audit Needs"), or an approved external auditor. If the changes are approved, coverage will automatically extend to the new contracts and Sherlock will follow-up with a revised Audit + Coverage Overview, noting the new "Covered Contract(s)" in the section "Details".

Sherlock will continue to provide active coverage on all contracts that were originally reviewed by Sherlock and deployed, even if a new contract is added somewhere in the system and unaudited. Basically this just means that Sherlock is not "off the hook" on all the covered contracts if the protocol deploys one incremental contract that has not been approved by Sherlock.

In the event Sherlock or an approved auditor does *not* review the new code changes and an exploit occurs, Sherlock's two primary claims systems, the SPCC and UMA Optimistic Oracle (see section "Claim Validity" below), will be used to assess whether the exploit would have happened *regardless* of the unaudited changes, or whether the exploit was

caused *because of* the unaudited changes. In the former situation, where the exploit would have happened regardless, this is a valid claim and will be covered by Sherlock. In the latter situation, where the exploit happened because of the unaudited changes, this would not be covered by Sherlock.

Payment Process

All Protocol Customer payments to Sherlock will be made in USDC to the following Ethereum smart contract address: 0x666B8EbFbF4D5f0CE56962a25635CfF563F13161

Claim Validity

A Protocol Customer will bring a possible covered exploit in their protocol to the attention of Sherlock's security team. It is likely the security experts at Sherlock in charge of that Protocol Customer will be involved in this process of discovering a possible exploit and understanding its nature. If there's a possibility that the exploit would be covered, the Protocol Customer will be tasked with deciding the amount of the claim. It is likely the security experts at Sherlock in charge of that Protocol Customer will also be heavily involved in advising the proper amount to create a claim for.

Once a possible exploit and the amount claimed by Protocol Customer is brought to the attention of Sherlock, the process of deciding the validity of the claim begins. The first step is to bring the exploit and amount of the claim to the attention of the Sherlock Protocol Claims Committee (**"SPCC"**) via the Protocol Agent Address. The SPCC is made up of members of the core team of Sherlock as well as official advisors to Sherlock. These members will be well-versed in the general nature of exploits and events covered by Sherlock as detailed in this statement of coverage. This committee will be composed of some of the foremost security experts in the DeFi space. All of the members of the SPCC will have a stake in Sherlock (likely in the form of tokens or equity) and will have an interest in doing what is best for the long-term wellbeing of Sherlock. They will also have reputations and public identities existing outside of Sherlock that they will want to uphold. These factors will make it very likely that the members of the SPCC will see it in their best interest to make the most accurate claims decision possible.

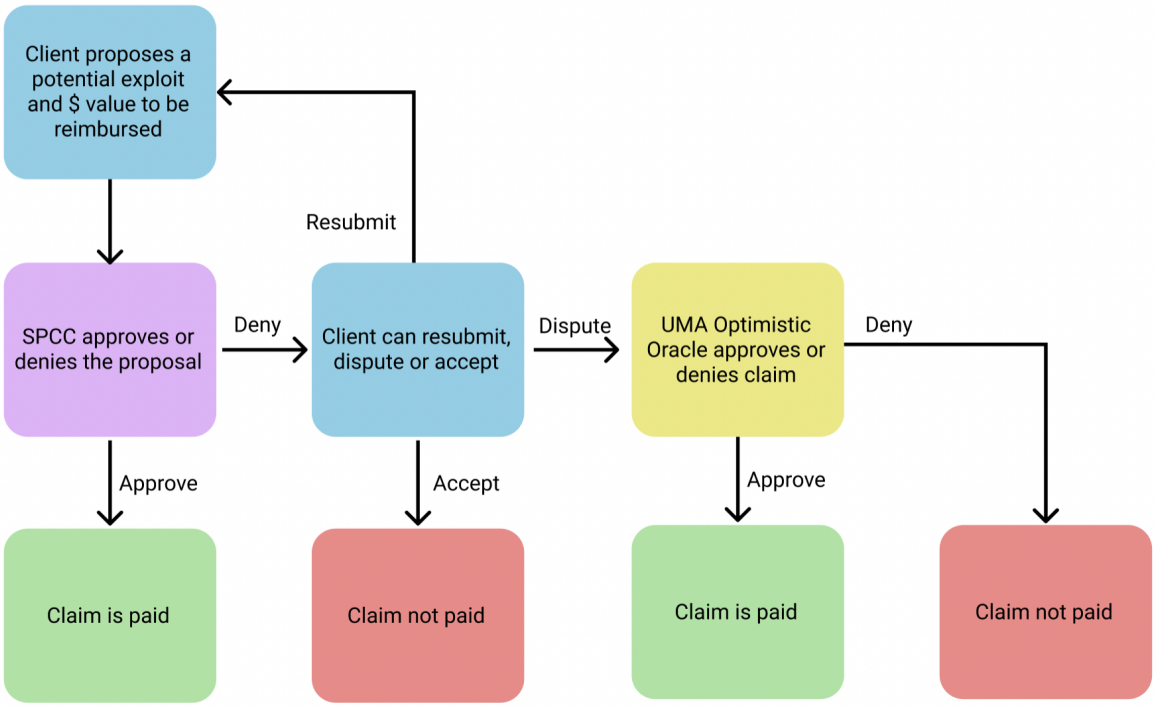
The decision made by the SPCC will be binary (either a claim will be accepted or not). Once a decision is made on a claim by the SPCC, there are a few possible paths. The first path for a Protocol Customer is to accept the decision.

The second path is to revise the claim (usually the amount of the claim) and re-submit. A Protocol Customer is limited to 3 submissions for each potential exploit (to be defined by the block number timestamp at which the potential exploit began).

The third and last path for the Protocol Customer is to escalate to arbitration. This would require the Protocol Customer to "stake" between 10k-50k USDC (amount will be decided by the SPCC) to escalate the claim above the SPCC. The escalation would move the claim decision from the SPCC's hands into the hands of UMA's Optimistic Oracle, more specifically UMA's Data Verification Mechanism. The Protocol Customer will have 4 weeks to escalate the claim to UMA's Optimistic Oracle once it has been denied by the SPCC. When escalated to UMA's Optimistic Oracle, the claims decision will be voted on by UMA tokenholders and the resolution of that vote will be the final claim decision (overruling the SPCC).

If the Protocol Customer is proven correct, then the amount specified by their claim will be paid out. They will also receive their stake back, minus the fee charged by UMA for using the Optimistic Oracle. If the Protocol Customer's escalation proves to be unsuccessful, then the amount specified by the claim is not paid out and the stake is not returned. Further reading related to UMA's Optimistic Oracle and Data Verification Mechanism can be found here.

Sherlock Claims Process



Deciding on Claims

When trying to decide if a claim falls under coverage or not, there are three main questions to ask (which will be explained in detail in the following pages):

1) Was there an unintended loss of user funds due to a flaw/oversight in the protocol? Basically did an exploit occur?
2) Does this exploit fall into the category of a "Known Economic Risk" explained below?
3) Does this exploit fall into a category under "Specific Events NOT Covered by Sherlock" listed below?

If 1) is true, meaning an exploit did occur, and 2) and 3) are false, then it is likely that this event should be covered and paid out by Sherlock. The reason for approaching the decision in this manner is that Sherlock provides some possibility for "unknown unknown" exploits occurring. And if this event is indeed an exploit, but Sherlock has not provided language around handling it in the letter or spirit of this document (specifically whether it should NOT be covered), then this new form of exploit should likely be covered by Sherlock.

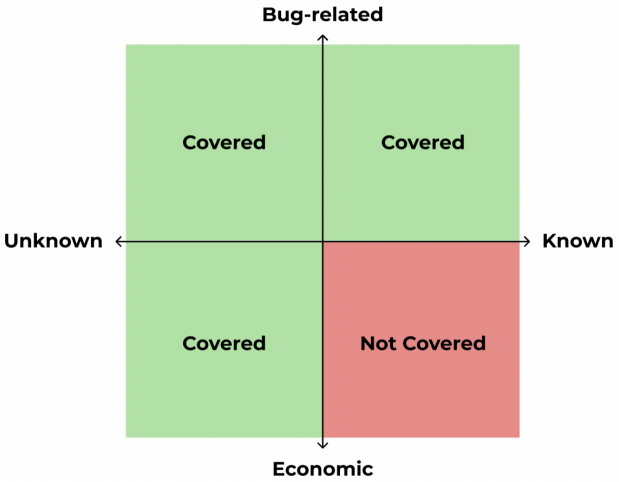
The Spirit of Sherlock Exploit Protection

This document will outline in detail all of the areas of coverage by Sherlock against which claims can be made (or not made). Because there are always bound to be gaps in explicit wording, Sherlock also attempts to explain the "spirit" of what the later paragraphs will convey, so that unforeseen exploits can still be handled well.

Known Economic Risks

There are two important categories of coverage at Sherlock. The first is bug-related coverage. If a smart contract has a syntax error or otherwise fails to execute its logic as intended due to a mistake related to code being written improperly, that would likely be considered a bug-related incident. However, if there is still a loss of funds despite the code being technically correct in what it intended to do (as a third-party would observe), this would likely fall more in the category of an economic incident. The latter (economic incidents) are not so much a failure of code or syntax as they are a failure of economic design. The difference can be subtle and there are definitely gray areas, but generally if the literal code functions in the way a developer intended, that is likely an economic error. If the literal code does not function as intended, that is likely a bug-related error.

We can create a quadrant of coverage with four types of errors: unknown bug-related errors, known bug-related errors, unknown economic errors, and known economic errors. An unknown error is simply something that the developers/auditors are unaware of (until it surfaces). This means a common bug (in a known class of bugs) can still be an unknown bug in a specific contract because it was not identified in that contract. Whether a bug-related error is known or unknown, an incident related to a smart contract bug should generally be covered. The onus is on Sherlock's security team to price known bugs properly or fix them. And unknown bugs are inherently unforeseeable so they should be covered. For unknown economic risks, the sentiment is the same. Because it was unknown (and therefore unforeseeable), it should be covered. But known economic risks are a bit different. Almost every protocol has some set of known economic risks. For



example, if the value of Maker collateral falls below the value of the deposits made into the protocol, the depositors are at risk of losing funds. Same goes for almost anything related to token price volatility. If a token price goes down, holders of the token or parties who interact with that token are at risk of losing funds related to the price drop. These are examples of known economic risks. Sometimes, these risks are a large part of the reason APYs are so high for certain opportunities. These are not risks Sherlock intends to cover. The onus is on the end user to learn about and understand (as well as the protocol to teach) the known economic risks which drive the APY (or attractiveness, speculative or not) of the investment opportunity they are considering. Many of these economic risks exist in traditional finance and have existed for centuries in various markets. Sherlock's goal is to mitigate the risks that are uniquely specific to DeFi, especially the risk that code or economic designs do not function as intended. Therefore Sherlock covers only bug-related and unknown economic risks because these are the risks that users are not well-equipped to evaluate themselves.

Known Bug-Related Risks

If a developer / team understands the implications of a known bug-related risk, but deems it an "acceptable risk" for their protocol, it should still be paid out as long as the team disclosed it to (or at least did not make efforts to conceal it from) the Sherlock smart contract team. As long as the Sherlock team knows about the "acceptable" risk around the code, it can be priced properly in Sherlock's model.

However, if a team makes considerable effort to conceal (or obfuscate) a certain "acceptable risk" or known risk, Sherlock may have grounds to not pay out. This clause exists mainly to disincentivize protocol teams from concealing as many bugs/vulnerabilities as they can from the Sherlock smart contract team in order to get a lower rate for coverage.

With that in mind, Sherlock attempts to enumerate, in as clear terms as possible, the events that will or will not be covered by Sherlock coverage:

Specific Events NOT Covered by Sherlock

Token Price

Any event that is triggered by a change in token price should almost certainly not be covered by Sherlock. Any protocol should know exactly which tokens it could have the opportunity to interact with. Any new token that a protocol intends to interact with should be treated just like any other new integration: with a security review by Sherlock or other

approved security teams before being executed on mainnet. And any protocol should have contingencies in their code for the price of all of these tokens dropping to zero or approaching infinity. The volatility of a token price is a perfect example of a "known economic risk" as recounted in the preceding section. This extends to "stablecoins" as well.

Changes in token price especially apply on the user side. The risk of a token's price going down (or up in the case of short-selling) should always be considered a known risk and thus a loss of funds caused by a change in the price of a token alone should not be a claimable event.

Collateral Shortfalls

This section is especially applicable to lending protocols and related protocols. Any lending protocol is well aware that one of the known economic risks is a shortfall in collateral, which would leave depositors unable to collect some of all of their principal. Of course, these collateral shortfalls could be caused by a bug in a smart contract, in which case Sherlock should cover the event. But a common, known economic risk of lending protocols is collateral shortfalls related to rapid and/or large changes in the price of tokens being used as collateral. This type of collateral shortfall would not be covered by Sherlock.

Unavailability of Funds

This section is especially applicable to lending protocols and related protocols. There may be situations where a depositor's tokens are not available to be withdrawn due to high utilization (on the borrowing side) of the depositor's tokens. This is a known economic risk related to lending protocols and thus would not be covered.

Approve Max / Approve Unlimited

The expectation for protocols covered by Sherlock is that they should discourage (or prevent) approving amounts (of tokens) to a contract above and beyond what is necessary for a specific transaction. Sometimes, it is not possible to entirely prevent this in the smart contracts, but it should at least be made impossible through the covered protocol's sponsored frontend/UI. Sherlock's goal is to protect end-users who may not be sophisticated users of crypto. Any user who goes against the recommendation of the sponsored UI and approves unlimited anyways can be thought of as a sophisticated user according to Sherlock. Users who approve more than they need for a specific transaction and then experience an exploit which drains funds held in their wallet (not at the covered protocol) will not be covered by Sherlock. To be clear, the user's funds that were in the

protocol and lost due to an exploit would be reimbursed. Any funds taken from the user's wallet due to an exorbitantly high approval value will not be reimbursed by Sherlock.

Phishing attacks

Users affected by phishing attacks related to their wallet (Metamask, etc.) would not be covered by a specific protocol's policy. Even if the tokens involved were tokens related to or distributed by a specific protocol that has a policy with Sherlock.

Phishing attacks related to "fake" websites (i.e. websites hosted at domains other than the protocol's sponsored website/app) would also not be covered. The onus is on the user to ensure they are actually interacting with a covered protocol, not a duplicate, replica, or look-alike website or protocol.

Phishing attacks spawning from a covered protocol's sponsored website/app are also not covered (such as hijacking a DApp's DNS). Sherlock currently does not have the resources to ensure and monitor the security of website / frontend-related vulnerabilities, but this may change in the future. If getting coverage for this kind of attack is a very high priority for a protocol team, we ask that the team to reach out to us.

Front-end bugs

In the same vein as phishing attacks, Sherlock currently does not have the resources to ensure and monitor the security of website / frontend-related vulnerabilities, but this may change in the future. So Sherlock cannot cover any unintended loss of funds resulting from an exploit/bug in the frontend (defined as non-Solidity code or code that is not deployed on a blockchain) of a protocol customer. This means that code related to libraries like Web3.js or Ethers.js cannot be covered even if it is interacting with smart contracts. The code covered must be deployed on a blockchain and frontend code does not meet this criteria.

Transaction Ordering Attacks / Frontrunning / Sandwich Attacks / MEV-Related Attacks

These types of attacks involve malicious addresses (often controlled by bots) that spot profitable transactions in the mempool and then execute the transaction themselves in order to capture the profit. Or the malicious address sees a certain state change that will be caused by a transaction in the mempool, and calls a function or executes a transaction to take advantage of that state change. The biggest reason that Sherlock cannot cover these types of attacks is because the potential for fraud is too high. If a user or protocol "loses" funds because their transaction is front-run in the mempool, it is very difficult for

Sherlock to know that the address doing the frontrunning is not also controlled by the same user or protocol.

However, in certain cases, these types of events would be covered by Sherlock. If, for whatever reason, a protocol tries to pass private or randomness-reliant information through the mempool, this should be covered by Sherlock (see "Specific Known Bug-Related Attacks" below) because the Sherlock security team should catch these types of bugs and in those cases it is fairly clear that unsound logic was being used in the code. In other cases, it's not always clear what the intentions of the developers were and therefore Sherlock cannot cover those cases.

Another area where this would be covered is simply bad logic in the protocol which doesn't check for certain conditions. The specific example here is the ERC20 *approve* race-condition exploit.

Rug Pulls / Admin Rights / Off-limits functionality

The unauthorized accessing of any function or contract where access is white-listed or entirely disallowed is NOT covered. Sherlock strongly recommends multi-signature admin functionality for all accounts and admin contracts.

The risk of funds being lost in a single signature setup is too high for Sherlock to cover. And in a multi-signature setup, the preponderance of evidence related to a loss of funds points to a rug pull (or extremely poor key management), which is a situation Sherlock does not intend to cover. Therefore Sherlock cannot cover ANY "admin"-related exploits. Sherlock is not able to accurately assess these types of exploits currently and so the price of premiums would be far too high if these risks were covered by Sherlock. Sherlock is working to expand its coverage in this area. But for now, any exploit related to privileged access (without an accompanying covered exploit), will not be covered by Sherlock.

This also applies to any governance-induced loss of funds. If a majority of token holders decides to vote maliciously in any way, that cannot be covered. For example, if a majority of token holders decide to transfer a minority's share of tokens to themselves, this would not be covered. And if a malicious party somehow acquires enough tokens to make a malicious change through governance, this also should not be covered.

Note: A bug related to a missing (or incorrect) access control check (such as a missing modifier) would be covered. This is a mistake in the code, not a "rug pull" necessarily.

Mistakes in Deployment

If a vulnerability becomes possible due to a poorly executed deployment of smart contracts, this is generally not something Sherlock would cover. However, Sherlock can provide services to check the accuracy/effectiveness of a deployment and then cover deployment-related risks. Right now, this is seen as an "add-on" to normal security services provided by Sherlock because it needs to be done at deployment time instead of during an audit.

Specific Events That Should Not Be Relied on for Decisions

Flash Loan

A flash loan by itself is simply a way to acquire more tokens. Any attack that can be accomplished with a flash loan can also be accomplished without a flash loan (by a whale, etc.). Therefore, the presence of a flash loan does not necessarily mean that an exploit has occurred. However, flash loans are often accompanied by other events (oracle manipulation, etc.) which are exploits. And, of course, if a flash loan is a part of a broader unknown economic attack, then the event should be covered. If the flash loan is simply taking advantage of a known economic attack (liquidation may occur if a token price drops), then it would not be covered by Sherlock. The presence of flash loans by themselves in a potential exploit event are not good indicators of whether an event should be covered or not.

Oracle Manipulation

Oracle manipulations should be fairly "known" economic risks by now, but they continue to happen all the time. Unfortunately, even widely used oracles like Uniswap V3 are quite manipulable under the right circumstances. An oracle manipulation fundamentally is just a change in the price of a token. Much like flash loans causing much larger amounts of tokens to enter a system than expected, oracle manipulations can cause much larger fluctuations in the price of a token than expected. And these token prices could move to those values without oracle manipulation as well. Because of this, Sherlock does not intend to pay out claims based on the movement of token prices alone. Sherlock would encourage protocols to build apps that are resilient to any token price being possible for any token. However, also similar to flash loans, oracle manipulations can often be bundled with smart contract bugs and other economic attacks that Sherlock should definitely cover. And if any part of a transaction (or series of transactions) involves a covered exploit, then the entire loss of funds should be covered.

Specific Events Covered by Sherlock

Specific Known "Bug-related" Attacks

- Integer underflow/overflow
- Reentrancy including cross-function reentrancy
- Silent failing sends / unchecked sends / unchecked low-level calls / delegatecall to untrusted callee
- Unbound loops
- Self-destruct-related exploits / forcibly sending Ether to a contract
- Absence of required participants
- Denial-of-service due to fallback function, gas limit reached, unexpected throw, unexpected kill
- False randomness / reliance on "private" information being sent through the mempool
- Time manipulation / timestamp dependence
- Short address attacks
- Insufficient gas griefing
- Authorization through tx.origin
- Uninitialized storage pointer
- Floating pragma / outdated compiler version / compiler-related bugs
- Missing checks / callable initialization function
- Missing variables / using the wrong variable
- Proxy/upgradability-related attacks (such as the OpenZeppelin UUPS bug)
- External dependencies (such as OpenZeppelin libraries)

Known "bug-related" attacks not listed here

The list of specific, known bug-related attacks above is surely incomplete, but is provided mainly for convenience. Any attack that can be classified as bug-related but is not listed under "Specific Events NOT Covered By Sherlock" should inherently be covered by Sherlock.

Events that Combine Different Attacks

Many exploits combine multiple types of events to disrupt a protocol. As long as just one of the events in the combined attack is determined to be covered by Sherlock, then the entire aggregated attack should be covered.

Coverage of Layer 2, Sidechain, and Other Chain Related Risk

Sherlock seeks to provide some degree of protection for user funds that reside on non-Ethereum Layer 1 and Layer 2 chains. Sherlock and the Protocol Customer should expressly state in the “Details” section which chains are covered.

If a bug is discovered in the L2/sidechain code and NOT the protocol code, then the maximum amount of payout for that bug across all covered protocols is 33% of the staking pool funds. Of course, the maximum payout per-protocol will also be limited by the size of the coverage amount for that specific protocol.

Bugs in actual L1 or L2 blockchain code should not be paid out if they simply cause the chain to freeze (i.e. not produce new blocks) for a certain period of time. Any protocol building on top of an L1 or L2 should be resilient to long periods of time where no new blocks are created. Unfortunately, these freezes are extremely common on L1s and L2s. However, if the bug in the L1 or L2 code results in a freeze that is expected to be permanent (i.e. funds are trapped or effectively lost forever) then Sherlock should consider this to be a bug that would get paid out according to the section paragraph in this section.

Events Specific to Hook

Once a claim has been processed by Sherlock, the Hook Protocol team has final discretion with respect to the value of reimbursement of its users for exploited NFTs. It is not guaranteed to be based on the last sale value, current floor price, etc.