Security Assessment

ClearDAO II

Dec 20th, 2021

Table of Contents

Summary

This report has been prepared for ClearDAO II to discover issues and vulnerabilities in the source code of the ClearDAO II project as well as any contract dependencies that were not part of an officially recognized library. A comprehensive examination has been performed, utilizing Static Analysis and Manual Review techniques.

The auditing process pays special attention to the following considerations:

- Testing the smart contracts against both common and uncommon attack vectors.
- Assessing the codebase to ensure compliance with current best practices and industry standards.
- Ensuring contract logic meets the specifications and intentions of the client.
- Cross referencing contract structure and implementation against similar smart contracts produced by industry leaders.
- Thorough line-by-line manual review of the entire codebase by industry experts.

The security assessment resulted in findings that ranged from critical to informational. We recommend addressing these findings to ensure a high level of security standards and industry practices. We suggest recommendations that could better serve the project from the security perspective:

- Enhance general coding practices for better structures of source codes;
- Add enough unit tests to cover the possible use cases;
- Provide more comments per each function for readability, especially contracts that are verified in public;
- Provide more transparency on privileged activities once the protocol is live.

Overview

Project Summary

Project Name	ClearDAO II
Platform	Ethereum
Language	Solidity
Codebase	https://github.com/DerivStudio/clear-token-contract
Commit	0bc8b12fd55cef825e9ec29c8ac1b188f5ea5907

Audit Summary

Delivery Date	Dec 20, 2021
Audit Methodology	Static Analysis, Manual Review
Key Components	

Vulnerability Summary

Vulnerability Level	Total	Pending	Declined	Acknowledged	Partially Resolved	Resolved
Critical	0	0	0	0	0	0
Major	2	0	0	2	0	0
Medium	0	0	0	0	0	0
Minor	0	0	0	0	0	0
Informational	3	0	0	0	0	3
Discussion	0	0	0	0	0	0

Audit Scope

ID	File	SHA256 Checksum
CTC	ClearToken.sol	f523a39d9528409ee31660ccc2f592d67c72c27697ead44860134ed636379a6d

Findings

Critical	0 (0.00%)
Major	2 (40.00%)
Medium	0 (0.00%)
Minor	0 (0.00%)
Informational	3 (60.00%)
Discussion	0 (0.00%)

ID	Title	Category	Severity	Status
CTC-01	Address Type Could Be Indexed In Events	Gas Optimization	Informational	Resolved
CTC-02	Typo Error	Language Specific	Informational	Resolved
CTC-03	Centralization Risk	**Centralization / Privilege**	**Major**	Acknowledged
CTC-04	Lack of Input Address Validation	Volatile Code	Informational	Resolved
CTC-05	Initial token distribution	**Centralization / Privilege**	**Major**	Acknowledged

CTC-01 | Address Type Could Be Indexed In Events

Category	Severity	Location	Status
Gas Optimization	Informational	clear-token-contract-main/contracts/ClearToken.sol (c749486): 9~10	Resolved

Description

It is recommended to add `indexed` keyword for parameters in events, which makes it easier for users to navigate event logs.

Recommendation

We advise the client to add keyword `indexed` in the declaration of events.

Alleviation

The team heeded our advice and resolved this issue in commit `24b9c2bb15184a4297fd4e7914e2df3232426f1c`.

CTC-02 | Typo Error

Category	Severity	Location	Status
Language Specific	Informational	clear-token-contract-main/contracts/ClearToken.sol (c749486): 25, 20	Resolved

Description

The name of the variable should be `initReceiver`.

Recommendation

We advise the client to modify the aforementioned code.

Alleviation

The team heeded our advice and resolved this issue in commit `24b9c2bb15184a4297fd4e7914e2df3232426f1c`.

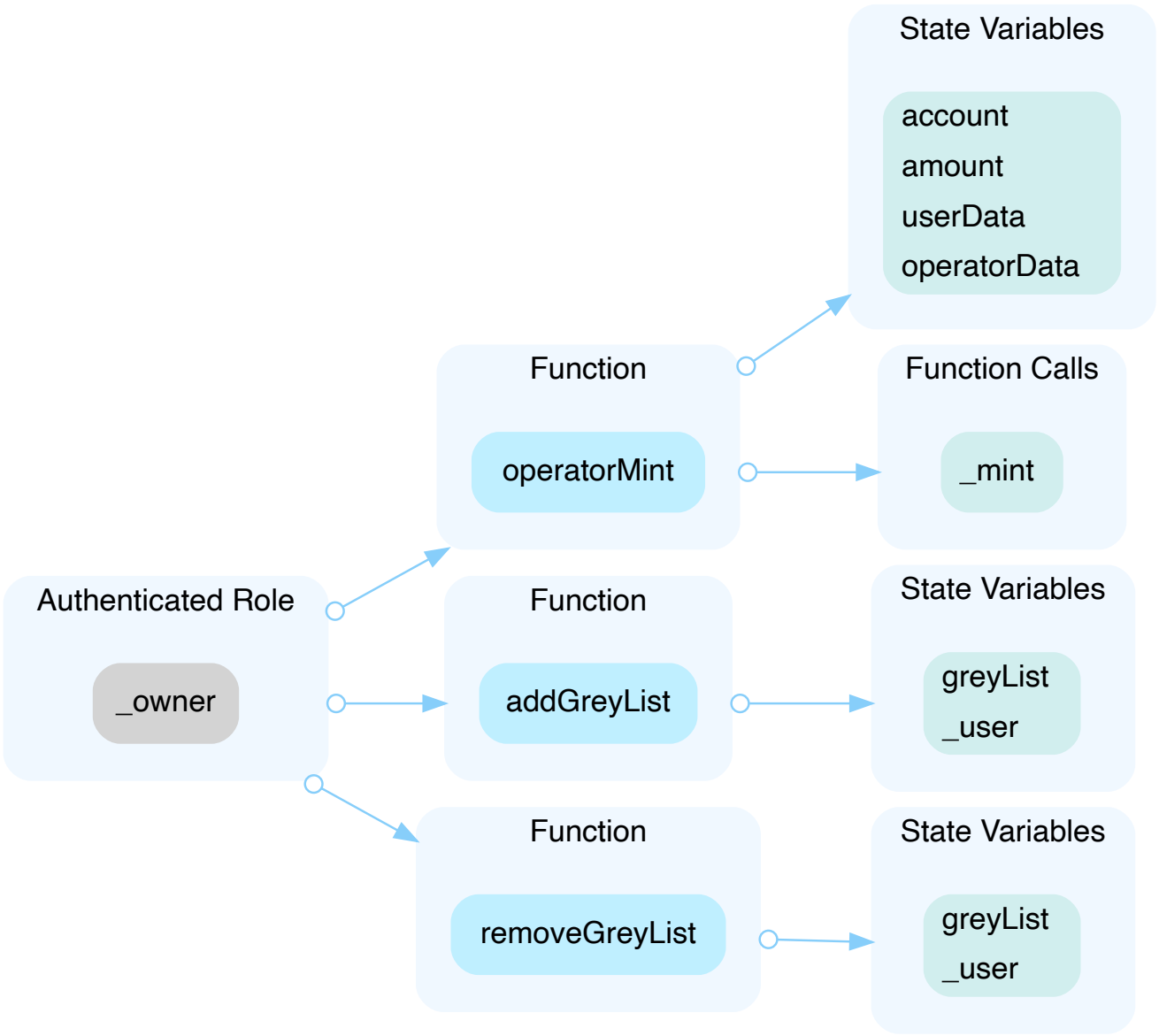
CTC-03 | Centralization Risk

Category	Severity	Location	Status
Centralization / Privilege	**Major**	clear-token-contract-main/contracts/ClearToken.sol (c749486)	Acknowledged

Description

In the contract `ClearToken`, the role `_owner` has the authority over the following function:

- operatorMint(), to mint tokens with `userData` and `operatorData`.
- addGreyList(), to add an address to the `greyList`.
- removeGreyList(), to remove an address from the `greyList`.



Any compromise to the `_owner` account may allow the hacker to take advantage of this.

Recommendation

We advise the client to carefully manage the `_owner` account's private key to avoid any potential risks of being hacked. In general, we strongly recommend centralized privileges or roles in the protocol to be improved via a decentralized mechanism or smart-contract-based accounts with enhanced security practices, e.g., Multisignature wallets.

Indicatively, here is some feasible suggestions that would also mitigate the potential risk at the different level in term of short-term and long-term:

- Time-lock with reasonable latency, e.g., 48 hours, for awareness on privileged operations;
- Assignment of privileged roles to multi-signature wallets to prevent a single point of failure due to the private key;
- Introduction of a DAO/governance/voting module to increase transparency and user involvement.

Alleviation

The team acknowledged this issue and they will assign the privileged roles to multi-signature wallets.

CTC-04 | Lack of Input Address Validation

Category	Severity	Location	Status
Volatile Code	Informational	clear-token-contract-main/contracts/ClearToken.sol (c749486): 38~46	Resolved

Description

The address should be checked if it is already added or removed before add greyList or remove greyList, so does the zero address situation.

Recommendation

We advise the client to add aforementioned checks.

Alleviation

The team heeded our advice and resolved this issue in commit `24b9c2bb15184a4297fd4e7914e2df3232426f1c`.

CTC-05 | Initial token distribution

Category	Severity	Location	Status
Centralization / Privilege	**Major**	clear-token-contract-main/contracts/ClearToken.sol (c749486)	Acknowledged

Description

All of the tokens are sent to the `initReceiver` when deploying the contract. This could be a centralization risk as the `initReceiver` can distribute tokens without obtaining the consensus of the community.

Recommendation

We recommend the team be transparent regarding the initial token distribution process. Besides, we advise the client to carefully manage the project's private key to avoid any potential risks of being hacked. In general, we strongly recommend centralized privileges or roles in the protocol to be improved via a decentralized mechanism or smart-contract-based accounts with enhanced security practices, e.g., Multi-signature wallets.

Indicatively, here is some feasible suggestions that would also mitigate the potential risk at the different level in term of short-term and long-term:

- Time-lock with reasonable latency, e.g., 48 hours, for awareness on privileged operations;
- Assignment of privileged roles to multi-signature wallets to prevent a single point of failure due to the private key;
- Introduction of a DAO/governance/voting module to increase transparency and user involvement.

Alleviation

The team acknowledged this issue and they will assign the privileged roles to multi-signature wallets.

Appendix

Finding Categories

Centralization / Privilege

Centralization / Privilege findings refer to either feature logic or implementation of components that act against the nature of decentralization, such as explicit ownership or specialized access roles in combination with a mechanism to relocate funds.

Gas Optimization

Gas Optimization findings do not affect the functionality of the code but generate different, more optimal EVM opcodes resulting in a reduction on the total gas cost of a transaction.

Volatile Code

Volatile Code findings refer to segments of code that behave unexpectedly on certain edge cases that may result in a vulnerability.

Language Specific

Language Specific findings are issues that would only arise within Solidity, i.e. incorrect usage of private or delete.

Checksum Calculation Method

The "Checksum" field in the "Audit Scope" section is calculated as the SHA-256 (Secure Hash Algorithm 2 with digest size of 256 bits) digest of the content of each file hosted in the listed source repository under the specified commit.

The result is hexadecimal encoded and is the same as the output of the Linux "sha256sum" command against the target file.

Disclaimer

This report is subject to the terms and conditions (including without limitation, description of services, confidentiality, disclaimer and limitation of liability) set forth in the Services Agreement, or the scope of services, and terms and conditions provided to you ("Customer" or the "Company") in connection with the Agreement. This report provided in connection with the Services set forth in the Agreement shall be used by the Company only to the extent permitted under the terms and conditions set forth in the Agreement. This report may not be transmitted, disclosed, referred to or relied upon by any person for any purposes, nor may copies be delivered to any other person other than the Company, without CertiK's prior written consent in each instance.

This report is not, nor should be considered, an "endorsement" or "disapproval" of any particular project or team. This report is not, nor should be considered, an indication of the economics or value of any "product" or "asset" created by any team or project that contracts CertiK to perform a security assessment. This report does not provide any warranty or guarantee regarding the absolute bug-free nature of the technology analyzed, nor do they provide any indication of the technologies proprietors, business, business model or legal compliance.

This report should not be used in any way to make decisions around investment or involvement with any particular project. This report in no way provides investment advice, nor should be leveraged as investment advice of any sort. This report represents an extensive assessing process intending to help our customers increase the quality of their code while reducing the high level of risk presented by cryptographic tokens and blockchain technology.

Blockchain technology and cryptographic assets present a high level of ongoing risk. CertiK's position is that each company and individual are responsible for their own due diligence and continuous security. CertiK's goal is to help reduce the attack vectors and the high level of variance associated with utilizing new and consistently changing technologies, and in no way claims any guarantee of security or functionality of the technology we agree to analyze.

The assessment services provided by CertiK is subject to dependencies and under continuing development. You agree that your access and/or use, including but not limited to any services, reports, and materials, will be at your sole risk on an as-is, where-is, and as-available basis. Cryptographic tokens are emergent technologies and carry with them high levels of technical risk and uncertainty. The assessment reports could include false positives, false negatives, and other unpredictable results. The services may access, and depend upon, multiple layers of third-parties.

ALL SERVICES, THE LABELS, THE ASSESSMENT REPORT, WORK PRODUCT, OR OTHER MATERIALS, OR ANY PRODUCTS OR RESULTS OF THE USE THEREOF ARE PROVIDED "AS IS" AND "AS AVAILABLE" AND WITH ALL FAULTS AND DEFECTS WITHOUT WARRANTY OF ANY KIND. TO THE MAXIMUM EXTENT PERMITTED UNDER APPLICABLE LAW, CERTIK HEREBY DISCLAIMS ALL WARRANTIES, WHETHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE WITH RESPECT TO THE SERVICES, ASSESSMENT REPORT, OR OTHER MATERIALS. WITHOUT LIMITING THE FOREGOING, CERTIK SPECIFICALLY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE AND NON-INFRINGEMENT, AND ALL WARRANTIES ARISING FROM COURSE OF DEALING, USAGE, OR TRADE PRACTICE. WITHOUT LIMITING THE FOREGOING, CERTIK MAKES NO WARRANTY OF ANY KIND THAT THE SERVICES, THE LABELS, THE ASSESSMENT REPORT, WORK PRODUCT, OR OTHER MATERIALS, OR ANY PRODUCTS OR RESULTS OF THE USE THEREOF, WILL MEET CUSTOMER'S OR ANY OTHER PERSON'S REQUIREMENTS, ACHIEVE ANY INTENDED RESULT, BE COMPATIBLE OR WORK WITH ANY SOFTWARE, SYSTEM, OR OTHER SERVICES, OR BE SECURE, ACCURATE, COMPLETE, FREE OF HARMFUL CODE, OR ERROR-FREE. WITHOUT LIMITATION TO THE FOREGOING, CERTIK PROVIDES NO WARRANTY OR UNDERTAKING, AND MAKES NO REPRESENTATION OF ANY KIND THAT THE SERVICE WILL MEET CUSTOMER'S REQUIREMENTS, ACHIEVE ANY INTENDED RESULTS, BE COMPATIBLE OR WORK WITH ANY OTHER SOFTWARE, APPLICATIONS, SYSTEMS OR SERVICES, OPERATE WITHOUT INTERRUPTION, MEET ANY PERFORMANCE OR RELIABILITY STANDARDS OR BE ERROR FREE OR THAT ANY ERRORS OR DEFECTS CAN OR WILL BE CORRECTED.

WITHOUT LIMITING THE FOREGOING, NEITHER CERTIK NOR ANY OF CERTIK'S AGENTS MAKES ANY REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED AS TO THE ACCURACY, RELIABILITY, OR CURRENCY OF ANY INFORMATION OR CONTENT PROVIDED THROUGH THE SERVICE. CERTIK WILL ASSUME NO LIABILITY OR RESPONSIBILITY FOR (I) ANY ERRORS, MISTAKES, OR INACCURACIES OF CONTENT AND MATERIALS OR FOR ANY LOSS OR DAMAGE OF ANY KIND INCURRED AS A RESULT OF THE USE OF ANY CONTENT, OR (II) ANY PERSONAL INJURY OR PROPERTY DAMAGE, OF ANY NATURE WHATSOEVER, RESULTING FROM CUSTOMER'S ACCESS TO OR USE OF THE SERVICES, ASSESSMENT REPORT, OR OTHER MATERIALS.

ALL THIRD-PARTY MATERIALS ARE PROVIDED "AS IS" AND ANY REPRESENTATION OR WARRANTY OF OR CONCERNING ANY THIRD-PARTY MATERIALS IS STRICTLY BETWEEN CUSTOMER AND THE THIRD-PARTY OWNER OR DISTRIBUTOR OF THE THIRD-PARTY MATERIALS.

THE SERVICES, ASSESSMENT REPORT, AND ANY OTHER MATERIALS HEREUNDER ARE SOLELY PROVIDED TO CUSTOMER AND MAY NOT BE RELIED ON BY ANY OTHER PERSON OR FOR ANY

PURPOSE NOT SPECIFICALLY IDENTIFIED IN THIS AGREEMENT, NOR MAY COPIES BE DELIVERED TO, ANY OTHER PERSON WITHOUT CERTIK'S PRIOR WRITTEN CONSENT IN EACH INSTANCE.

NO THIRD PARTY OR ANYONE ACTING ON BEHALF OF ANY THEREOF, SHALL BE A THIRD PARTY OR OTHER BENEFICIARY OF SUCH SERVICES, ASSESSMENT REPORT, AND ANY ACCOMPANYING MATERIALS AND NO SUCH THIRD PARTY SHALL HAVE ANY RIGHTS OF CONTRIBUTION AGAINST CERTIK WITH RESPECT TO SUCH SERVICES, ASSESSMENT REPORT, AND ANY ACCOMPANYING MATERIALS.

THE REPRESENTATIONS AND WARRANTIES OF CERTIK CONTAINED IN THIS AGREEMENT ARE SOLELY FOR THE BENEFIT OF CUSTOMER. ACCORDINGLY, NO THIRD PARTY OR ANYONE ACTING ON BEHALF OF ANY THEREOF, SHALL BE A THIRD PARTY OR OTHER BENEFICIARY OF SUCH REPRESENTATIONS AND WARRANTIES AND NO SUCH THIRD PARTY SHALL HAVE ANY RIGHTS OF CONTRIBUTION AGAINST CERTIK WITH RESPECT TO SUCH REPRESENTATIONS OR WARRANTIES OR ANY MATTER SUBJECT TO OR RESULTING IN INDEMNIFICATION UNDER THIS AGREEMENT OR OTHERWISE.

FOR AVOIDANCE OF DOUBT, THE SERVICES, INCLUDING ANY ASSOCIATED ASSESSMENT REPORTS OR MATERIALS, SHALL NOT BE CONSIDERED OR RELIED UPON AS ANY FORM OF FINANCIAL, TAX, LEGAL, REGULATORY, OR OTHER ADVICE.

About

Founded in 2017 by leading academics in the field of Computer Science from both Yale and Columbia University, CertiK is a leading blockchain security company that serves to verify the security and correctness of smart contracts and blockchain-based protocols. Through the utilization of our world-class technical expertise, alongside our proprietary, innovative tech, we're able to support the success of our clients with best-in-class security, all whilst realizing our overarching vision; provable trust for all throughout all facets of blockchain.