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Folidity - Safe Functional Smart Contract Language

A project progress report submitted for the award of
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<u>ABSTRACT</u>

FACULTY OF ENGINEERING AND PHYSICAL SCIENCES
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This paper addresses the long-lasting problem involving the exploits of Smart Contract vulnerabilities. There are tools such as in the formal verification field and alternative Smart Contract languages that attempt to address these issues. However, neither of the approaches have managed to combine the static formal verification and the generation of runtime assertions. Furthermore, this work believes that implicit hidden state transition is the root cause of security compromises. In light of the above, we introduce Folidity, a safe functional Smart Contract language with a unique approach to reasoning about modelling and development of Smart Contract systems. Folidity features explicit state transition checks, a model-first approach, and built-in formal verification tooling.

Contents

1. Introduction

The concept of "smart contract" [SC] was first coined by Nick Szabo as a computerised transaction protocol [1]. He later defined smart contracts as observable, verifiable, privity-applicable, and enforceable programs. [2]. In other words, smart contracts were envisioned to inherit the natural properties of traditional "paper-based" contracts.

It was only in 2014 when SCs were technically formalised at the protocol level by Dr. Gavin Wood as an arbitrary program written in some programming language (Solidity) and executed in the blockchain's virtual machine of Ethereum (EVM) [3].

Ethereum Virtual Machine (EVM) iterated over the idea of Bitcoin Scripting, allowing developers to deploy general-purpose, Turing-Complete programs that can have own storage, hence state. This enabled the development of more sophisticated applications that grew beyond the simple funds transfers among users.

Overall, SC can be summarised as an *immutable*, *permissionless*, *deterministic* computer programs that are executed as part of state transition in the blockchain system. At the time of writing, Solidity is still the most widely used SC language (SCL) [4].

After a relatively short time, SCs have come a long way and allowed users to access different online services in a completely trustless and decentralised way. The applications have spanned financial, health, construction[5], and other sectors.

2. Security and Safety of Smart Contracts

2.1 Overview

With the increased adoption of decentralised applications (DApps) and the increased total value locked in DApps, there has been evidence of numerous attacks and exploits focused on extracting funds from SCs. Due to the permissionless nature of SCs, the most common attack vector exploits the mistakes in the SC's source code. Specifically, the attacker can not tamper with the protocol code due to consensus mechanisms. Instead, they can cleverly tamper with the publicly accessible parameters and interfaces to force the SC into an unexpected state, essentially gaining partial control of it.

A notorious example of such attacks is the DAO hack when hackers exploited unprotected re-entrance calls to withdraw **$50 million worth of ETH**. This event forced the community to hard-fork the protocol to revert the transaction, provoking a debate on the soundness of the action [6].

Another less-known example is the "King of the Ether" attack, which was caused by the unchecked low-level Solidity `send` call to transfer funds to a contract-based wallet [7]. The "King of the Ether Throne" contract could not recognise the failed transaction on the wallet side. Instead, the contract proceeded with the operation, incorrectly mutating its internal state.

Other issues involve the *safety* and *liveness* of SCs. The term *safety* is used to describe the *functional safety* and *type safety*. It is often used interchangeably with the *security* of code as compromising the former affects the latter. When talking about *liveness*, we describe the business logic of a DApp, particularly whether it transitions into the expected new state.

Safety and *liveness* can be compromised due to the programmer's mistakes in the source code that can result in the SC entering the terminal in an unexpected state preventing users from interacting with it[8].

2.2   Vulnerability classification

There has been an effort in both academia and industry to classify common vulnerabilities and exploits in SCs in blockchain systems [9][10][11]. Some of the work has been recycled by bug bounty platforms, growing the community of auditors and encouraging peer-review of SCs such as *Code4rena*[1], *Solodit*[2], and many others.

Analysing the work mentioned above, SC vulnerabilities can be categorised into the six general groups outlined in Table 2.1.

Note that we do not evaluate the listed vulnerabilities based on their severity. As far as this paper is concerned, all vulnerabilities are considered equal weight for the reasons described in Section 2.3.

2.3   Setting the scene

Numerous deployed DApps allowed the community of developers and auditors to learn from the mistakes and the past and generally improve the code quality and security of SCs. Audits are now an essential part of the release cycle of any DApp.

However, even with the raised awareness for the security and safety of SCs, recent reports from "code4rena" still show *SCV:3*, *SCV:4* and *SCV:5* commonly present in the recent audit reports[12][8][13].

In particular, in [13], a relatively simple calculation mistake resulted in other SC users being unable to withdraw their funds.

It can be seen that SC Vulnerabilities illustrated in Table 2.1 are still evident in modern SCs, resulting in opening them up to vulnerabilities of different severity levels. Looking at the mentioned reports, there is little consensus about the weight of each vulnerability. Therefore, as mentioned earlier, we can not classify any particular vulnerability as more severe than the other as it solely depends on the context in the code it is present in. Furthermore, given the pattern in the mistakes made by SC developers, it has been realised that additional tooling or alternative SCLs need to be discovered to minimise the exposure of SC code to the earlier-mentioned vulnerabilities.

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[1]https://code4rena.com
[2]https://solodit.xyz

Code	Title	Summary
SCV1	Timestamp manipulation	Timestamp used in control-flow, randomness and storage, can open an exploit due to an ability for validator to manipulate the timestamp
SCV2	Pseudo-randomness	Using block number, block hash, block timestamp are not truly random generated parameters, and can be manipulated by the adversary validator
SCV3	Invalidly-coded states	When coding business logic, control-flow checks can be incorrectly coded resulting the SC entering into invalid state
SCV4	Access Control exploits	This is a more broad categorisation of vulnerabilities. It occurs when an adversary calls a restricted function. This is specifically present in *upgradeability* and *deleteability* of SCs
SCV5	Arithmetic operations	SCs are suspected to the same arithmetic bugs as classic programs. Therefore, unchecked operations can result in underflow/overflow or deletion by zero
SCV6	Unchecked externall calls	Unchecked re-entrant, forward, delegate calls can result in the contract entering into unexpected state

TABLE 2.1: classification of SC Vulnerabilities

3. Current Solutions

3.1 Overview

Given the increased use of SCs and the consistency in the presence of vulnerabilities and programmer mistakes different solutions have been presented to attempt to mitigate those. We can generally categorise them into two groups: safe SCLs, which allow users to write safe and secure code, particularly described in Chapter 3.3, and formal verification tools used alongside traditional SCLs and described in Chapter 3.2.

At the end of the chapter, we will have reviewed both categories of tools, allowing us to evaluate their effectiveness in correlation to usability. Particularly, this chapter aims to provide a clear and concise framework to analyze and work with the SC tools dedicated to producing error-proof DApps.

3.2 Formal Verification Tools

Formal verification describes the assessment of the correctness of a system with respect to a formal specification[14]. The specification is usually described in terms of verified models using mathematical proofs. There are multiple ways to formally verify a program that are focused on the specific parts of it. *Model checking* utilises propositional logic to verify the mathematical abstractions of the system. *Theorem proving* involves verifying relations between the model and the statements about the system. Finally, *symbolic execution* focuses on the execution of the program using symbolic values instead of concrete values[14]. Different tools utilise different combinations of methods mentioned above. We are going to look at a couple of them.

KEVM[1] is a tool that provides an executable semantics of EVM using $\mathbb{K}$ framework. It uses reachability logic to reason symbolically about the system[15]. KEVM is a powerful tool that operates at the EVM bytecode level. Specifically, SC developers are required to write a specification in a separate file that is checked against the compiled EVM bytecode of the SC. Whilst this provides

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[1]https://jellopaper.org/index.html

more fine-grained assurance of the safety and correctness, it requires specialised knowledge of the $\mathbb{K}$ framework and EVM semantics, hence significantly increasing the development time.

The other interesting tool is Dafny[2]. Dafny is a general-purpose tool that checks inputs in any language using Hoare-logic and high-level annotations. Although Dafny offers compilation to some system languages, Solidity is not yet a supported target. Notably, work in the field suggests that the Dafny can be an effective and easy-to-use tool to produce a formal specification[16]. The syntax resembles a traditional imperative style and is substantially easier to learn and understand than KEVM.

Some tools can be used alongside Solidity code, such as Scribble[3]. Scribble enables developers to provide formal specifications of functions inside docstrings seamlessly integrating with existing Solidity code. It offers VS Code extensions and is actively maintained by Consensys. The trade-off is the limited expressiveness in comparison with KEVM and Dafny.

Finally, there have been experiments to formally verify SC without any additional annotations. In particular, VeriSmart specifically focuses on ensuring arithmetic safety and preciseness in SCs[17]. However, VeriSmart fails to detect other types of errors, although an effort has been made to apply the verifier to more areas of SC.

Formal verification is a multi-disciplinary field offering multiple ways of reason about the systems. One of the actively researched fields is bounded model verification[18]. Developers are required to reason about the programs as finite state machines (FSM). This reasoning approach is more apparent in SC development since the state transition is at the core of blockchain execution. Bounded model checking has been realised by only a few experimental projects such as Solidifier[19] and Microsoft[20]. Both projects attempt to translate Solidity code to an intermediate modelling language, Boogie[21]. Boogie then leverages SMT solvers in order to find any assertion violations.

All in all, we can see that formal verification tools provide a robust way of ensuring the safety and security of SCs. While significant effort has been made in the field, it is evident that formal verification tools in SC development try to compensate for Solidity's implicit state transitions and lack of *implicit* safety. Furthermore, the current tools significantly complicate the development process and provide very little comfort for developers to opt-in for them.

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[2]https://dafny.org/latest/DafnyRef/DafnyRef
[3]https://docs.scribble.codes/

3.3 Safe Smart Contract Languages

As mentioned above, Solidity's imperative style compromises a safe development process. Therefore, multiple attempts have been made to address a flawed programming model[4]. Alternative SCLs aim to provide built-in safety features in a type system, modelling, and function declaration in order to minimise the need for external tooling.

Some languages, such as Vyper[4], strive for simplicity. By stripping off some low-level features, Vyper minimises the chances of the developer misusing the dangerous operations. It also provides overflow checking, signed integers, and other safe arithmetic operations. However, Vyper is still immature and the recent bug in the compiler caused a massive re-entrancy exploit in the *curve.fi* AMM protocol[22]. Furthermore, Vyper still suffers from the same implicit state transition problem as Solidity.

To address the problem, it has been realised that a functional programming style may be better for SC development due to an explicit approach to reason about a state transition. Although some small effort has been made to adapt Haskell, neither project received any long-term support. It is still worth looking at some of the languages that suggest novice approaches to development.

Flint is an experiment language with protected calls and asset types[23]. Protected calls introduce a role-based access system where the SC developer can specify the permitted caller to a message function. Another unique feature is array-bounded loops that partially address the halting problem. Flint also addresses a state-transition problem by allowing developers to specify all possible states in the contract. The message functions need to specify the state transition, which occurs explicitly. The language provides a significant improvement in a modelling approach. However, it still lacks the modelling SC input data in terms of constraints and invariants, and explicit state transition is still an optional feature that the developer can miss in using.

Another promising SCL reasons about SC development through dependent and polymorphic types[24]. It extends Idris[5] and makes the developer model the SC as part of a state transition function by adopting a functional programming style. Dependent types provide a more fine-grained controller over the input and output data that flow through the SC functions. In particular, similar to Haskell, the language offers *side-effects* functionality that resembles *IO* monads in Haskell. The downside of the approach is that the syntax has become too cumbersome for other developers to learn. Thus, it has been stated that the language does not strive for simplicity and sacrifices it for safety.

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[4]https://docs.vyperlang.org/en/latest/index.html
[5]https://www.idris-lang.org

3.4   Problem statement

Analysing the solutions mentioned earlier, we can identify the positive trend in providing the safety and security of SCs. Modern formal verification methods offer support to SC developers in ensuring that their code satisfies the requirements of the system while proposed SCL solutions offer runtime safety minimising the need for the former.

However, there has been no effort in attempting to combine the two approaches into a single development process. Formal verification tools focus on the validation of functional correctness and model consistency of a program at the compile time, whereas SCLs focus on data validation at the runtime. Recent work suggests that the improved optimisation of SMT solvers allows us to turn the formal model specification into the runtime assertions[25]. Furthermore, no effort has been made to minimise false negatives in SC formal modelling, even though the methods have been developed for traditional systems[26].

4. Proposed Solution

4.1 Outline

In light of the above, we believe there is a need for a solution that combines two approaches to allow SC developers to reason about their program in terms of FSM models that can be verified at the compile time for functional correctness and model consistency, and enable an automatic generation of invariants and constraints to validate the data at runtime.

We propose *Folidity*, a safe smart contract language. Folidity will offer the model-first approach to the development process while featuring the functional-first programming style. The language intends to offer a safe and secure-by-design approach to the programming, ensuring that the developer is aware of any state transitions during execution.

The list of feature requirements has been comprised based on the vulnerabilities described in Table 2.1.

1. **Provide abstraction over timestamp** in response to *SCV:1*. We are interested in the limited use of timestamps in SCs in favour of block number or another safe primitive.

2. **Provide a safe interface for randomness** in response to *SCV:2*. Folidity should also provide source of randomness through a standardised interface.

3. **Enable model-first approach in development** in response to *SCV:3*. Developers should reason about the storage in terms of models and how they are updated by events. This approach is inspired by the Event-B[26] work, which can be applied to SC development as well.

4. **Explicit state checks at runtime** in response to *SCV:3* and *SCV:6*. Similar to *Requirements:3*, SC developers should be aware of any state transitions that update the state of the model. State transitions must happen explicitly and be validated at the runtime to guarantee *liveness*.

5. **Static typing** in response to *SCV:3* and *SCV:5*. Static types should be first-class citizen of the language.

6. **Polymorphic-dependent types** in response to *SCV:3*. Polymorphic-dependent types should be part of a runtime assertion check during state transition and model mutation[1].

7. **Role-based access** in response to *SCV:4*. All message functions that mutate the model should be annotated with the role-access header specifying which set of accounts is allowed to call it.

8. **Checked arithmetic operations** in response to *SCV:5*. All arithmetic operations should be checked by default, and the developer is responsible for explicitly specifying the behaviour during over/underflow, similar to Rust.

9. **Enforced checked recursion or bounded loops** in response to *SCV:3*. Infinite loops should not be permitted, and any loops should generally be discouraged in favour of recursion. The recursion base case should be specified explicitly with appropriate invariants. Bounded loops may be used but should be limited to list or mapping iterations.

As part of the language design, the SC building workflow is illustrated in Figure 4.1
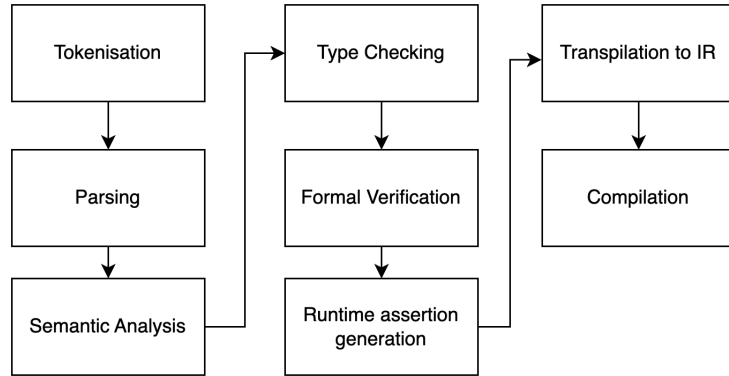

FIGURE 4.1: Build workflow

As one of the core features of Folidity, it is important to note that formal verification is part of the build process. Having verified the model consistency, invariants, and constraints, the program is considered safe to generate runtime assertions.

Another core feature is a pure computation context of the SC in Folidity. As illustrated in Figure 4.2(a), state mutations to the contract storage and the global state (e.g. account balances) happen independently of each other. Folidity proposes a new execution model when the language *embeds* a portion of a global state into the local state of the SC as shown in Figure 4.2(b).

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[1] *Model mutation* and *state transition* refer to the same process. They are used interchangeably
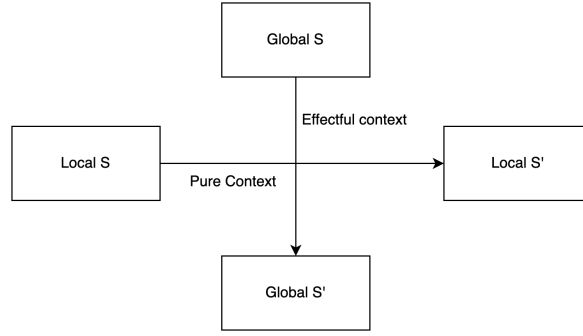
(a) Traditional execution context
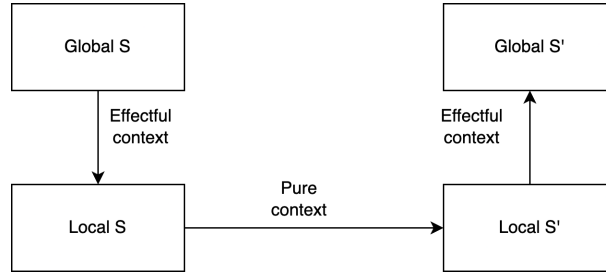
(b) Transfomed execution context

FIGURE 4.2: Changes to the execution context

4.1.1 Model consistency: Simple example

As an example of the theory behind model consistency in SCs. we can look at role-based access. Suppose:

- $* = \{\text{All addresses}\}$

- $M = \{\text{Moderators of the system}\}$

- $A = \{\text{Admins of the system}\}$

Then we can model a role-based access hierarchy as

$$A \subseteq M \subseteq *$$

Subsequently, given the invariant for some event *add_mod(a: Address)* we can define following invariant:

$$i_0 := card(A) = 1$$
$$i_1 := c \in A$$
$$i_2 := card(M) = 5$$

Where c - caller's address.

For the denoted event, suppose we mutate the model by adding an address to a set of admins:

$$A := A \cup \{a\}$$

Then, we can verify the model consistency for some state transition $S \to S'$ using propositional logic.

$$\frac{(i_0 \wedge i_1 \wedge i_2) \to A \cup \{a\}, a \in *, c \in A}{A \cup \{a\}}$$

However, as it can be seen, we can see that one of the premises violates the invariant, in particular:

$$\frac{card(A) = 1 \to A \cup \{a\}, a \in *}{A \cup \{a\}}$$

.

In practice, the following error can be picked at the compile time by using symbolic execution of the code. The other invariant, i_1, can be picked at the runtime by generating an appropriate assertion.

4.2   Implementation

The language will be implemented using Rust[2] due to its memory-safety guarantees and efficiency. Different parser-combinators alongside custom lexers are going to be used for the development of the parser. Folidity also requires SMT-solver for formal verification and generation of runtime assertions. In order to facilitate this functionality, Z3[3] will be used since it also provides Rust bindings. It was debated to use Boogie, since it provides a higher-level abstraction, but it was quickly discarded due to lack of documentation and increased development time.

As a target blockchain for the language, Algorand[4] has been selected. Algorand is a decentralized blockchain platform designed for high-performance and low-cost transactions, utilising a unique consensus algorithm called Pure Proof-of-Stake to achieve scalability, security, and decentralization[27]. One of the potential drawbacks of the language is increased complexity due to complex abstractions and additional assertions. EVM-based blockchains have varying costs for the execution, i.e. fees, that depend on the complexity of a SC. On the contrary, although Algorand has a limited execution stack, it offers extremely fixed, low transaction fees. Additionally, Algorand execution context explicitly executes in terms of state transition, which perfectly suits the paradigm of Folidity. Finally, Algorand offers opt-in functionality and local wallet storage, allowing users to explicitly opt-in to

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[2]https://www.rust-lang.org
[3]https://microsoft.github.io/z3guide
[4]https://developer.algorand.org

use the SC. This provides additional support in the role-based access control in Folidity.

As a target compilation language, Tealish[5] has been chosen. Although, Algorand offers Teal[6] – a low-level, stack-based programming language. Due to increased complexity, it is more realistic to use Tealish. It offers the same access control to stack and storage while providing the developer with useful high-level abstractions.

4.3 Scope

As part of the development process, it has been decided to limit the scope to supporting only a single SC execution. Cross-contract calls require extra consideration in design and development. Therefore, *SCV:6* may not be fully addressed in the final report. Additionally, optimisation of the execution is also not considered relevant at this stage in favour of safety and simplicity. Finally, Algorand offers smart signatures, a program that is delegated a signing authority[7]. As they operate in a different way from SCs, they are also outside the scope of this project.

5. Project Planning

A significant groundwork in research of current solutions and their limitations has been done as illustrated by Gannt chart in Appendix A.1. Since the requirements have been composed, some progress has been made in the design of BNF grammar that will later pave the way for the development of the parser. During the design of the grammar, it is still possible to research more formal verification methods.

From the beginning of January, the first iteration of grammar should be completed, and the active development of the type checker and formal verifier should begin.

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[5]https://tealish.tinyman.org
[6]https://developer.algorand.org/docs/get-details/dapps/avm/teal/
[7]https://developer.algorand.org/docs/get-details/dapps/smart-contracts/smartsigs
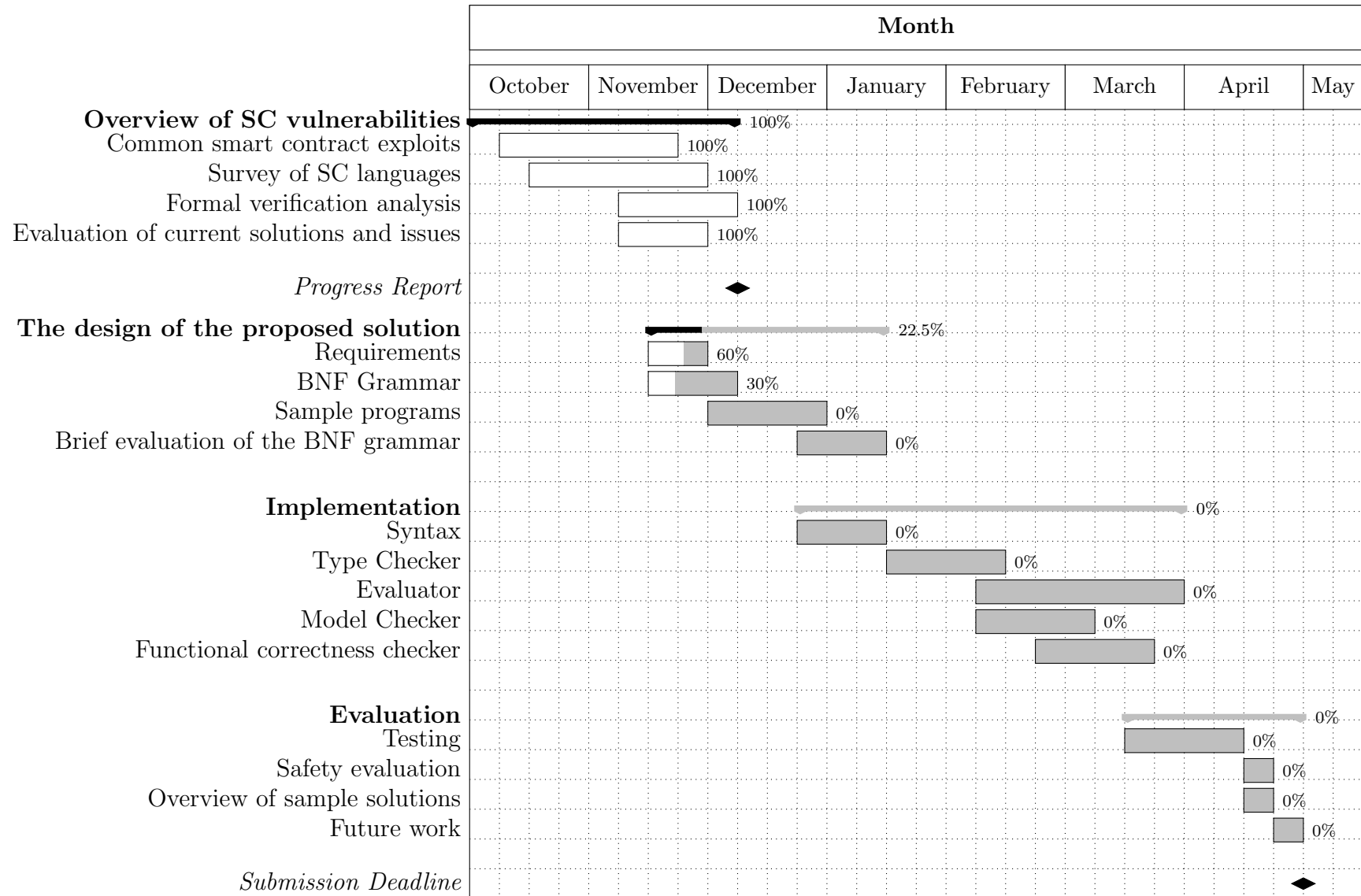
A. Gannt Chart

FIGURE A.1: Gantt Chart

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