



# Catalyst Network

Technical White Paper

# Catalyst Network - Technical White Paper (DRAFT - V1)

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## Abstract

Distributed Ledger Technologies (DLTs) over the last decade have grown at an extraordinary rate, with new technologies being announced, developed and released on a daily basis. A majority of these technologies have not progressed from the original concepts set out by Satoshi Nakamoto in his seminal paper [1] with regards to speed, security, scalability and decentralisation. There has however been a clear demonstration for the appetite and innovation for wider markets to adopt these technologies. Catalyst marries together many existing technologies as well as some novel ones in order to create a framework which give a fast, scalable and fair ledger.

**This document is a work in progress and is subject to change.**

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# Introduction

With the creation of bitcoin, we witnessed the opening of pandora's box in terms of financial ingenuity, self-sovereignty and a shift of power from the financial elite to the people. Since the 80's people like David Chaum theorised the ideas of distributed consensus-based protocols. Although a technical and social breakthrough bitcoin now comparatively is like sending money via cheques in terms of the raw throughput and functionality.

Again with the creation of Ethereum we witnessed the opening of pandora's box for a second time. We were introduced to the concept of the world state and distributed computing which until its creation had only been theorized by people like Nick Szabo 20years ago. The idea of decentralised finance, peer-based crowdfunding further challenged the grasp of the financial world. But at this time new societal concepts such as web3 were introduced.

The web3 movement has become a war cry for a new and better web. With the rise in popularity in consensus protocols, where users demand more control over the finances, we are now demanding more privacy, more security and more control over our data. Web3 is the idea that the same stateful protocols that are revolutionising the financial industry can also revolutionise the much-broken web.

Consensus-based protocols like blockchains introduced a method for each participant in a network to hold and transfer state in a digitally native format, applying stateful protocols to the traditionally stateless protocols that power the web, gives the web a native mechanism to authoritatively say who owns what, who has permissions to do an action.

But again as groundbreaking a technology Etheruem is, and the improvements it brings in interns of technical functionality as a distributed system and highlighting benefits it can bring to all parts of our life. Ethereum as one component of the web3 ecosystem has some major problems in terms of scalability feature-rich functionality. More generally with the current web3 paradigm trying to build decentralised applications often forces developers to adopt multiple protocols, multiple native tokens, and multiple technology stacks in return to offer simplistic functionality compared to our stateless ancestor protocols.

The Catalyst team looked at the "state" of Web3 it's self and said, it's good, but it can still be better. Our approach to building Catalyst was to solve some core issues

- Build a true Byzantine fault-tolerant consensus that becomes increasing scalable, decentralised and secure at scale .
- Provide a feature-rich full-stack solution to developers who want to embrace the web3 ethos.
- Rethink the economic incentives around blockchain systems, to be fairer to all participants.

## 1 Catalyst Consensus Mechanism

Distributed networks have no single point of trust to determine the validity of transactions, so consistency must be ensured by other methods. Typically this requires a majority of the network's participants to agree on a particular update of the ledger and the changes to account balances held on the ledger. Blockchain technologies generally employ Proof-of-Work (PoW) and occasionally Proof-of-Stake (PoS) mechanisms in order to gain consensus across a network. However, these methods are prone to increasing centralisation at scale, as well as high energy consumption (in the case of PoW). Other networks employ a small amount of trusted nodes that ensure the validity of transactions, but this is also highly centralised and almost as fallible as the single point of failure systems that DLT endeavors to avoid.

Catalyst integrates a newly designed consensus mechanism, based on Probabilistic Byzantine Fault Tolerance (PBFT). However, Catalyst gains consensus through a collaborative and fair

mechanism by voting rather than through a competitive process, meaning that all honest work performed by nodes on the network benefits the security of the network and that all successful participating nodes are rewarded equally. The consensus for Catalyst can therefore be more accurately described as a PBFT voting mechanism. For each ledger cycle a random selection of worker nodes are selected, the nodes become the producers for a cycle or number of cycles. The producer nodes perform work in the form of compiling and validating transaction thereby extracting a ledger state change for that cycle.

The protocol is split into four distinct phases:

- Construction Phase - Producer nodes that have been selected create what they believe to be the correct update of the ledger. They then distribute this proposed ledger update in the form of a hash digest.
- Campaigning Phase - Producer nodes designate and declare what they propose to be the ledger state update as determined by the values collected from other producer nodes in the producer pool.
- Voting Phase - Producer nodes vote for what they believe to be the most popular ledger state update as determined by the producer pool according to the candidates for the most popular update from the other producer nodes.
- Synchronisation Phase - The producers who have computed the correct ledger update can broadcast this update to the rest of the network.

This section is based on the work set out in [4], where the original research into the creation of a new consensus mechanism is laid out. The various parameters and thresholds mentioned in this chapter and their impact on the levels of security and confidence in the successful production of a ledger state update are discussed in the following paper [8].

## 1.1 Producer Node Selection

Original work for the Catalyst consensus mechanism states that the peers are selected with relation to the persistent identifier and the hash of the previous data. But as the persistent identifier can be manipulated by a user and thereby weighted in their favor of selection to become a producer, this is not usable.

Research into a random decided decentralised autonomous organisation (RANDAO) provides a viable alternative [5][6]. This is a process by which each user creates their own random value and by combining these random numbers across the network they calculate a global pseudo-random number. The larger the network the more random the number will be. The proposed process works as follows:

- Define  $p$  as the maximum integer that the hashing function used can represent.
- Each node in the worker pool generates a random number  $r$  in the range  $[0, p]$ .
- To this random number the hash of the previous ledger state,  $D$ , must be added mod  $p$ .
- Each node then creates a Blake-2b hash of the combined random number  $H(r + D)$ .
- Each node must then send their value  $r$  to the contract.
- If they do not send their  $r$  value they are not eligible to become a producer node.
- Each node in the worker pool sends their  $H(r + D)$  to the global state. This creates the global random value  $G$ . This is done through addition of all the random numbers mod  $p$ .
- The global state must determine:
  - Whether a particular node did submit all correct information, *i.e.*  $r$ , and  $H(r + D)$ .
  - That a particular node did in fact use the  $D$  value when generating the random number. This is done by taking the  $r$  value submitted by the user and hashing with  $D$ .

- Ensuring the node has paid a sufficient stake to take part in the selection process.
- Validating that each worker has only distributed one random number to the smart contract.
- Failure of any one of these points means the smart contract will not accept the submission of a random number from  $r$  and the created stake will be lost.
- This global random number can then be used to determine the producers for the next cycle(s).
- This is done by determining the nodes that have a  $H(r + D)$  closest to the  $G$  value using a XOR Hamming distance search on the binary tree.

This method is secure from manipulation because hashing algorithms are one way functions, meaning that there is no provably efficient method to inverse a hashing function, *i.e.* retrieving a message  $m$  from a digest  $H(m)$ . If a node does not input a value into the global state then they are not eligible for selection for becoming a producer for that cycle(s).

Inclusion of the  $D$  value is necessary as this will prevent a producer from using known random values to create a desired digest that gives them an advantage when being selected. The value for  $D$  must fulfill two rules, firstly it must always be the same for all nodes in the worker pool, secondly it must change with each draw of a random number when determining the random selection of producer nodes. This prevents a user creating a hash using known input and digest combinations in order to gain an advantage when being selected. Furthermore, if the hash of the previous ledger state is used as  $D$  it ensures that a prospective producer node knows the current ledger state. If they do not then their random number will be invalid as  $H(r + D_{prod}) \neq H(r + D)$ .

As described in RANDAO[6], this can be further extended to implement staking. Nominal contribution fees can be added in order to prevent DDOS and Sybil attacks without disincentivising participation. There is also the additional benefit of simplification of the overall consensus mechanism as it removes the need for a queuing mechanism, as well as producing a verifiable method of keeping track of which nodes are registering to be workers for any given cycle. It also in turn provides evidence to other nodes on the network who the producers for any given cycle are as the process will be verifiable.

This scheme will provide the Catalyst consensus mechanism with a verifiable, reliable and secure mechanism to generate a pool of producers. By randomly assigning which workers get to participate in the next ledger cycle, fairness is ensured.

## 1.2 Notation

For the sake of clarity, here is a dictionary of the variables used in the proceeding description of the consensus mechanism:

- $p$  - A single producer that has been selected randomly to perform work for the network for a given cycle.
- $P$  - The pool of producers who have been selected through the producer selection mechanism for the particular cycle being described. It is made up of a set of producers  $p$
- $T$  - The mempool of any given producer  $p$ . It contains a group of transactions that will be used in the update for a given cycle.
- $t$  - A single transaction that is found within the mempool  $T$ .
- $u$  - The local ledger state update generated by a single producer node. This is what that particular node believes to be the correct update for the given cycle.
- $\sigma$  - A pseudorandomly generated number, used as a salt.

- $E$  - The list of entries found within a single transaction  $t$ . A producer will produce one of these lists for each valid transaction in  $T$ .
- $d$  - A hash tree containing all the signatures extracted from the transactions in  $T$ .
- $H$  - A hash of each list  $E$  combined with the salt  $\sigma$ .
- $L$  - Alphanumerically ordered list of the pairs  $E, H$ , sorted according to  $H$ .
- $G$  - The list of proposed updates  $u$  that producer  $p$  collects from other nodes in producer pool  $P$ . This is used to determine the most popular update.
- $\mathcal{L}(prod)$  - The list of producers from a particular producers' set  $G$  that sent the most popular ledger state update.
- $L_{CE}$  - A producers list of compensation entries *i.e.* who a producer believes did the correct work for the network and thereby should be rewarded.
- $\mathcal{L}(vote)$  - The list of producers a specific producer found to have forwarded the correct vote for the most popular ledger state update.
- $LSU$  - Ledger State Update. This is the final ledger state update proposed by a producer node. It consists of the list of entries used to create the update, the hash tree containing the signatures and the list of compensation entries.
- $V$  - A producers vote for the correct  $LSU$  formed of the hash of the  $LSU$ ,  $L_{vote}$  and the producer's ID.
- $\mathbf{o}$  - The final producer output that is declared to the network.

### 1.3 Construction Phase

The first phase of the Catalyst consensus algorithm is the Construction Phase. In this phase, the selected producer nodes  $P$  calculate either their proposed ledger state update. This is done by aggregating and validating all transactions that have occurred during a set time period. These transactions, assuming their validity, are integrated into the producers' local ledger state update, from which they can create a hash of the update. This hash digest represents what they believe to be the correct update and is broadcast to the other producer nodes for that cycle. Assuming the collision free nature of hash functions, the only mechanism for multiple producer nodes to have the same local ledger state update is for both of them to use the same set of transactions.

Each producer  $p$  in the set of producers  $P$  follows the same protocol. The construction phase begins with producer  $p$  beginning their construction phase by flushing their mempool. This mempool  $T$  is made up of a set of transactions  $t$ , where the size of  $T$  is the number of transactions that have been broadcast to the network and have been stored by  $p$ . These transaction are used to create  $p$ 's local ledger state update  $u$ .

The producer at this point also creates a hash tree  $d$ . This is to store the signatures that are extracted from each transaction in  $T$ . A salt  $\sigma$  is created utilizing a pseudo-random number generator using the previous ledger state update  $U - 1$  as its seed.  $p$  then follows the following steps:

1. Producer  $p$  verifies that each transaction in  $T$  is valid following the rules set out in [7]. From each of the  $n$  transactions in  $T$  the entries  $E$  that constitute the transaction  $t$  are extracted to form a list  $E = e_1, \dots, e_m$  for  $m$  entries in  $t$ . The producer should therefore end up with  $n$  lists for  $E$  from  $T$ . Each signature from the transactions is also extracted and added to  $d$ .
2.  $p$  for each  $E$  it created then creates a corresponding hash digest as:

$$H = \mathcal{H}[E \parallel \sigma]$$

Each pair  $(E, H)$  is added to a list  $L$ .

3.  $p$  then sorts list  $L$  into lexicographical order according to the hash values  $H$ .
4. The producer  $p$  then extracts the transaction fee value from each transaction in  $T$  to create  $v$  which is the total sum of all transaction fees.

5. The local ledger state update  $u$  for producer  $p$  can then be calculated. Firstly the list  $L$  is concatenated (denoted by  $||$ ) with the hash tree  $d$  and a hash digest is created as:

$$u = \mathcal{H}(L || d)$$

This list summary of transactions  $u$  is then concatenated with  $p$ 's unique peer identifier  $Id$  to create:

$$h = u || Id$$

6.  $h$  is then broadcast to the other producer nodes on the network.

Producer  $p$  also collects other producers' partial ledger update values. At most they will collect  $P - 1$  values. Optimally every producer in  $P$  will receive the same set of transactions, so for every  $p$  in  $P$  they will have the same partial ledger update  $u$ . However this is unlikely due to all transactions not being received by a small group of nodes. Equally they may not hold  $G$  where  $G = h_1, \dots, h_P$ , meaning they may not receive a proposed update from all candidates.

## 1.4 Campaigning Phase

The second phase of the consensus mechanism is where the producer  $p$  generates and proposes a candidate, which it calculates to be the most popular ledger state update.

Beginning this phase producer  $p$  has a set of partial ledger updates  $G$  that it has received from other producer nodes. Each  $h$  within  $G$  contains a producer's hash of the proposed update ( $u$  and a peer identifier ( $Id$ )). The most popular  $u$  value can be found, which gives us  $u^{maj}$ , and from there the subset  $G_{maj}$  can be created, which is the amount of votes for the most popular update. Two thresholds must be considered first are  $G_{min}$ , the minimum amount of updates it has received from other producers in order to generate a valid candidate, and  $G_{thresh}$ , the threshold value for which a minimum number of votes must be in favor of  $G_{maj}$  (the most popular vote found within  $G$ ). So in order to proceed with declaring a candidate the requirements,  $G > G_{min}$  and  $G_{maj} > G_{thresh}$  must be met.

If the thresholds are met the following can take place:

1.  $p$  creates a list  $\mathcal{L}(prod)$ . To this list  $p$  appends the identifier of any producer that correctly sent the  $u$  value that equals  $u^{maj}$ . If  $p$ 's  $u$  value is also the same as  $u^{maj}$  then they should append their own  $Id$ .
2. Producer  $p$  then creates their candidate for the ledger update  $c$  which is calculated as  $c = u^{maj} || \#(\mathcal{L}(prod)) || Id$
3. Producer  $p$  will then broadcast their preferred update  $c$  to the other producers.

$p$  during this phase will be collecting the  $c$  values from other producers. At the end of this phase of the cycle  $p$  will hold a set of  $C$  candidates.

## 1.5 Voting Phase

The third phase of the ledger cycle is the Voting Phase within which a producer  $p$  from the  $C$  candidates it has received decides on what it believes should be the global ledger state update *i.e.* the update that should be applied to the ledger for that cycle.

1.  $p$  verifies that the same first hash value  $u^{maj}$  is embedded in a majority of producer candidates.
2.  $p$  is required at this point to have created the majority ledger update. As only with this partial update can they participate effectively. Therefore their  $u == u^{maj}$



If each producer collects the first hash value generated by every producer, any two producers would build the same list of identifiers  $\mathcal{L}(prod)$ . However even in highly efficient distributed network it is unlikely that all producers will retrieve all information. Therefore it must be assumed that the list of identifiers held by  $p$  is incomplete,  $p$  however must ensure that they hold enough information to confidently issue a vote on the update to the ledger. The identifier of a producer is appended to the hash they distribute because:

- To verify that  $p$  is a producer node and that they in fact were one of the winners of the random draw described in ??.
- To evaluate and track the quality of the work performed by  $p$ .
- To ensure that the correct producers withing  $P$  are rewarded for their work maintaining the ledger.

New transaction entries (compensation entries) are created using the list's  $\mathcal{L}(prod)$  produced by the producers  $p$ . This allows reward and fees to be paid to the correct users. These new transaction entries will be appended to the final ledger state update for that cycle. Therefore a complete ledger state update should consist of:

- The list of transaction entries integrated into the new ledger state all  $E$  lists.
- The transaction signatures from  $T$  held in  $d$ .
- Compensation entries rewarding the producers from  $\mathcal{L}(prod)$ .

The voting process thereby must confirm the correct list of identifiers involved in producing the correct ledger state updates. The final list for  $\mathcal{L}(prod)$  is generated by merging the producers lists together. In order for a producer  $p$  to have their  $Id$  added to the final  $\mathcal{L}(prod)$  the must appear in at least 50% of the  $\mathcal{L}(prod)$  lists distributed by  $P$ . This ensures that no producer can just append their own  $Id$  to their update whether that update was correct or not and gain a reward for it.

This process ensures that only producers that have provided the correct update may receive this part of the reward, thereby preventing unethical behavior from producers by declaring that they got the correct update when in fact they did not. However, it does introduce the problem of producers that have created the wrong ledger update being disincentiveise from proceeding in the consensus process further. Therefore producers that vote for the correct update whether or not they produced the correct update should also receive a portion of the reward. This is determined by the list  $\mathcal{L}(vote)$  that each  $p$  creates to store the Id's of the producers which the gained votes from that voted for the correct update.

$p$  follows a series of steps:

1.  $p$  generates a list  $\mathcal{L}(vote)$  it then appends the  $Id$  of any other  $p$  that has forwarded a  $C$  candidate that satisfies  $u == u^{maj}$ .
2.  $p$  creates the combined list for  $\mathcal{L}(prod)$  of any  $p$  from  $P$  that appears in  $P/2$  lists.
3. Then  $p$  creates a list  $L_{CE}$ . This contains the contribution entries. This is for any user that is included in the combined  $\mathcal{L}(prod)$ . Each of these producers contained within this list will receive  $x$  tokens. If it is considered that  $X$  is the total number of tokens that are injected into the network at each cycle for the pool of  $P$  producers. The amount of entries into  $L_{CE}$  will be less than or equal to  $P$ .  $R$  is to be considered the total amount of reward that is to be split among all the producers that found the correct ledger update  $R = f_{prod}X + v$  where  $f_{prod}$  is the fraction of the injected tokens that are given to users found in the combined  $\mathcal{L}(prod)$ . While  $(1 - f_{prod})X$  is the value that is distributed to other nodes that have performed work.
4. Producer  $p$  can then create the candidate ledger state update for this cycle. This includes the reward allocations for producers according to their contributions. This ledger state update  $LSU$  can be defined as:

$$LSU = L \parallel d \parallel L_{CE}$$

$p$  then computes its vote (or *producer vote*):

$$V = \mathcal{H}(LSU) \parallel \#(\mathcal{L}(vote)) \parallel Id$$

5.  $p$  then forwards their  $V$  to the other producers and collects the producer votes  $V$  issued by its peers.

During the voting phase, the producer  $p$  collects the producer votes  $V$  broadcast by its peers. At the end of the voting phase, the producer  $p$  holds  $U$  producer votes  $V$  in its cache. This will be equal to or less than the number of producers who formed the correct update.

## 1.6 Synchronisation Phase

The Synchronisation phase allows those nodes that have produced the correct ledger update to then pass this update onto the rest of the network, thereby integrating the changes held within upon the overall state of the ledger.

During the synchronisation phase  $p$  executes the following steps:

1. Producer  $p$  selects from the producer votes  $V$  which received the most popular unique  $V$ . The number of most popular votes received is defined as  $V_{max}$ . This  $V_{max}$  value must exceed a specified threshold  $V_{thresh}$ . So  $V_{max} \geq V_{thresh}$ .
2.  $p$  creates a list  $\mathcal{L}_{final}(vote)$ . To  $\mathcal{L}_{final}(vote)$  the producer  $p$  appends the identifier of any producer that their given  $V == V_{max}$  *i.e.* they voted among the majority. Furthermore that producer must appear in at least half the  $\mathcal{L}(vote)$  lists found in the  $V$  values  $p$  collected from other producers.
3. If the producer  $p$  also created the correct ledger state update  $LSU$  then they can write it to the DFS with the content address CID [?].
4. Producer  $p$  then creates the final producer output that can be declared to the network. This output is:

$$\mathbf{o} = CID \parallel \#(\mathcal{L}_{final}(vote)) \parallel Id$$

The producer then broadcasts  $\mathbf{o}$  to the network.

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