SMART CONTRACT AUDIT REPORT

for

ZyberSwap

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1 Introduction

Given the opportunity to review the design document and related source code of the ZyberSwap protocol, we outline in the report our systematic approach to evaluate potential security issues in the smart contract implementation, expose possible semantic inconsistencies between smart contract code and design document, and provide additional suggestions or recommendations for improvement. Our results show that the given version of smart contracts could potentially be improved due to the presence of several issues related to either security or performance. This document outlines our audit results.

1.1 About ZyberSwap

ZyberSwap is the first decentralized exchange in the Arbitrum ecosystem that implemented Algebra Concentrated Liquidity solution. In addition to swapping, yield farming, and staking, Zyberswap offers active management of liquidity, which is made possible by collaboration with Gamma. Additionally, Zyberswap aims to fully involve its users in decision-making. All major changes are decided via governance voting. The basic information of the audited protocol is as follows:

Table 1.1: Basic Information of ZyberSwap

Item	Description
Name	ZyberSwap
Type	Smart Contract
Language	Solidity
Audit Method	Whitebox
Latest Audit Report	May 11, 2023

In the following, we show the Git repository of reviewed files and the commit hash value used in this audit. Note this audit only covers two following contracts: Dividends.sol and sZyberToken.sol.

- https://github.com/Zyberswap-Arbitrum/zyberswap-contracts.git (2395365)

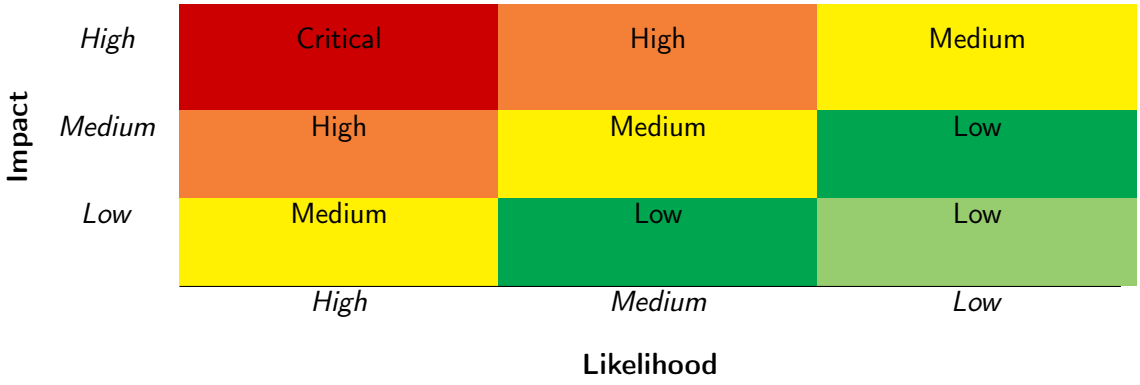
And this is the commit ID after all fixes for the issues found in the audit have been addressed:

- https://github.com/Zyberswap-Arbitrum/zyberswap-contracts.git (97838aa)

1.2 About PeckShield

PeckShield Inc. [7] is a leading blockchain security company with the goal of elevating the security, privacy, and usability of current blockchain ecosystems by offering top-notch, industry-leading services and products (including the service of smart contract auditing). We are reachable at Telegram (https://t.me/peckshield), Twitter (http://twitter.com/peckshield), or Email (contact@peckshield.com).

Table 1.2: Vulnerability Severity Classification



1.3 Methodology

To standardize the evaluation, we define the following terminology based on OWASP Risk Rating Methodology [6]:

- Likelihood represents how likely a particular vulnerability is to be uncovered and exploited in the wild;
- Impact measures the technical loss and business damage of a successful attack;
- Severity demonstrates the overall criticality of the risk.

Likelihood and impact are categorized into three ratings: *H*, *M* and *L*, i.e., *high*, *medium* and *low* respectively. Severity is determined by likelihood and impact, and can be accordingly classified into four categories, i.e., *Critical*, *High*, *Medium*, *Low* shown in Table 1.2.

To evaluate the risk, we go through a list of check items and each would be labeled with a severity category. For one check item, if our tool or analysis does not identify any issue, the contract is considered safe regarding the check item. For any discovered issue, we might further

Table 1.3: The Full List of Check Items

Category	Check Item
Basic Coding Bugs	Constructor Mismatch
	Ownership Takeover
	Redundant Fallback Function
	Overflows & Underflows
	Reentrancy
	Money-Giving Bug
	Blackhole
	Unauthorized Self-Destruct
	Revert DoS
	Unchecked External Call
	Gasless Send
	Send Instead Of Transfer
	Costly Loop
	(Unsafe) Use Of Untrusted Libraries
	(Unsafe) Use Of Predictable Variables
	Transaction Ordering Dependence
	Deprecated Uses
Semantic Consistency Checks	Semantic Consistency Checks
Advanced DeFi Scrutiny	Business Logics Review
	Functionality Checks
	Authentication Management
	Access Control & Authorization
	Oracle Security
	Digital Asset Escrow
	Kill-Switch Mechanism
	Operation Trails & Event Generation
	ERC20 Idiosyncrasies Handling
	Frontend-Contract Integration
	Deployment Consistency
	Holistic Risk Management
Additional Recommendations	Avoiding Use of Variadic Byte Array
	Using Fixed Compiler Version
	Making Visibility Level Explicit
	Making Type Inference Explicit
	Adhering To Function Declaration Strictly
	Following Other Best Practices

deploy contracts on our private testnet and run tests to confirm the findings. If necessary, we would additionally build a PoC to demonstrate the possibility of exploitation. The concrete list of check items is shown in Table 1.3.

In particular, we perform the audit according to the following procedure:

- Basic Coding Bugs: We first statically analyze given smart contracts with our proprietary static code analyzer for known coding bugs, and then manually verify (reject or confirm) all the issues found by our tool.
- Semantic Consistency Checks: We then manually check the logic of implemented smart contracts and compare with the description in the white paper.
- Advanced DeFi Scrutiny: We further review business logics, examine system operations, and place DeFi-related aspects under scrutiny to uncover possible pitfalls and/or bugs.
- Additional Recommendations: We also provide additional suggestions regarding the coding and development of smart contracts from the perspective of proven programming practices.

To better describe each issue we identified, we categorize the findings with Common Weakness Enumeration (CWE-699) [5], which is a community-developed list of software weakness types to better delineate and organize weaknesses around concepts frequently encountered in software development. Though some categories used in CWE-699 may not be relevant in smart contracts, we use the CWE categories in Table 1.4 to classify our findings. Moreover, in case there is an issue that may affect an active protocol that has been deployed, the public version of this report may omit such issue, but will be amended with full details right after the affected protocol is upgraded with respective fixes.

1.4 Disclaimer

Note that this security audit is not designed to replace functional tests required before any software release, and does not give any warranties on finding all possible security issues of the given smart contract(s) or blockchain software, i.e., the evaluation result does not guarantee the nonexistence of any further findings of security issues. As one audit-based assessment cannot be considered comprehensive, we always recommend proceeding with several independent audits and a public bug bounty program to ensure the security of smart contract(s). Last but not least, this security audit should not be used as investment advice.

Table 1.4: Common Weakness Enumeration (CWE) Classifications Used in This Audit

Category	Summary
Configuration	Weaknesses in this category are typically introduced during the configuration of the software.
Data Processing Issues	Weaknesses in this category are typically found in functionality that processes data.
Numeric Errors	Weaknesses in this category are related to improper calculation or conversion of numbers.
Security Features	Weaknesses in this category are concerned with topics like authentication, access control, confidentiality, cryptography, and privilege management. (Software security is not security software.)
Time and State	Weaknesses in this category are related to the improper management of time and state in an environment that supports simultaneous or near-simultaneous computation by multiple systems, processes, or threads.
Error Conditions, Return Values, Status Codes	Weaknesses in this category include weaknesses that occur if a function does not generate the correct return/status code, or if the application does not handle all possible return/status codes that could be generated by a function.
Resource Management	Weaknesses in this category are related to improper management of system resources.
Behavioral Issues	Weaknesses in this category are related to unexpected behaviors from code that an application uses.
Business Logics	Weaknesses in this category identify some of the underlying problems that commonly allow attackers to manipulate the business logic of an application. Errors in business logic can be devastating to an entire application.
Initialization and Cleanup	Weaknesses in this category occur in behaviors that are used for initialization and breakdown.
Arguments and Parameters	Weaknesses in this category are related to improper use of arguments or parameters within function calls.
Expression Issues	Weaknesses in this category are related to incorrectly written expressions within code.
Coding Practices	Weaknesses in this category are related to coding practices that are deemed unsafe and increase the chances that an exploitable vulnerability will be present in the application. They may not directly introduce a vulnerability, but indicate the product has not been carefully developed or maintained.

2 | Findings

2.1 Summary

Here is a summary of our findings after analyzing the design and implementation of the ZyberSwap protocol smart contracts. During the first phase of our audit, we study the smart contract source code and run our in-house static code analyzer through the codebase. The purpose here is to statically identify known coding bugs, and then manually verify (reject or confirm) issues reported by our tool. We further manually review business logics, examine system operations, and place DeFi-related aspects under scrutiny to uncover possible pitfalls and/or bugs.

Severity	# of Findings	
Critical	0	
High	0	
Medium	1	■
Low	1	■
Informational	0	
Total	2	

We have so far identified a list of potential issues: some of them involve subtle corner cases that might not be previously thought of, while others may involve unusual interactions among multiple contracts. For each uncovered issue, we have therefore developed test cases for reasoning, reproduction, and/or verification. After further analysis and internal discussion, we determined a few issues of varying severities need to be brought up and paid more attention to, which are categorized in the above table. More information can be found in the next subsection, and the detailed discussions of each of them are in Section 3.

2.2 Key Findings

Overall, these smart contracts are well-designed and engineered, though the implementation can be improved by resolving the identified issues (shown in Table 2.1), including 1 medium-severity vulnerability and 1 low-severity vulnerability.

Table 2.1: Key Audit Findings

ID	Severity	Title	Category	Status
PVE-001	Low	Improved Logic in Dividends::enableDistributedToken()	Business Logic	Resolved
PVE-002	Medium	Trust Issue of Admin Keys	Security Features	Mitigated

Beside the identified issues, we emphasize that for any user-facing applications and services, it is always important to develop necessary risk-control mechanisms and make contingency plans, which may need to be exercised before the mainnet deployment. The risk-control mechanisms should kick in at the very moment when the contracts are being deployed on mainnet. Please refer to Section 3 for details.

3 Detailed Results

3.1 Improved Logic in Dividends::enableDistributedToken()

- ID: PVE-001
- Severity: Low
- Likelihood: Low
- Impact: Low
- Target: `Dividends`
- Category: Business Logic [4]
- CWE subcategory: CWE-841 [2]

Description

The `ZyberSwap` protocol has a built-in `Dividends` contract to distribute dividends to users that allocated `sZYB` to this `Dividends` contract. The dividends can be distributed in the form of one or more tokens. While examining the logic to enable a previously disabled distribution token, we notice the current implementation can be improved.

To elaborate, we show below the implementation of the related `enableDistributedToken()` routine. When a previously disabled distribution token is re-enabled, if the number of current distribution tokens is equal to `MAX_DISTRIBUTED_TOKENS`, the re-enabling may not be successful, which is inconsistent with the design. In fact, the `MAX_DISTRIBUTED_TOKENS` enforcement can be improved as follows: `require(_distributedTokens.length()- dividendsInfo_.distributionDisabled?1:0 < MAX_DISTRIBUTED_TOKENS);` (lines 381-384).

```
374     function enableDistributedToken(address token) external onlyOwner {
375         DividendsInfo storage dividendsInfo_ = dividendsInfo[token];
376         require(
377             dividendsInfo_.lastUpdateTime == 0
378                 dividendsInfo_.distributionDisabled,
379             "enableDistributedToken: Already enabled dividends token"
380         );
381         require(
382             _distributedTokens.length() < MAX_DISTRIBUTED_TOKENS,
383             "enableDistributedToken: too many distributedTokens"
384         );
385         // initialize lastUpdateTime if never set before
```

```
386         if (dividendsInfo_.lastUpdateTime == 0) {
387             dividendsInfo_.lastUpdateTime = _currentBlockTimestamp();
388         }
389         // initialize cycleDividendsPercent to the minimum if never set before
390         if (dividendsInfo_.cycleDividendsPercent == 0) {
391             dividendsInfo_
392                 .cycleDividendsPercent = DEFAULT_CYCLE_DIVIDENDS_PERCENT;
393         }
394         dividendsInfo_.distributionDisabled = false;
395         _distributedTokens.add(token);
396         emit DistributedTokenEnabled(token);
397     }
```

Listing 3.1: `Dividends::enableDistributedToken()`

Recommendation Improve the above `enableDistributedToken()` logic to resolve the corner case of re-enabling a previously disabled distribution token.

Status This issue has been resolved in the following commit: `97838aa`.

3.2 Trust Issue of Admin Keys

- ID: PVE-002
- Severity: Medium
- Likelihood: Medium
- Impact: Medium
- Target: `Multiple Contracts`
- Category: Security Features [3]
- CWE subcategory: CWE-287 [1]

Description

In the `ZyberSwap` protocol, there is a privileged `owner` account that plays a critical role in governing and regulating the system-wide operations (e.g., emergency withdrawal and distribution token adjustment). It also has the privilege to control or govern the flow of assets managed by this protocol. Our analysis shows that the privileged account needs to be scrutinized. In the following, we examine the privileged account and their related privileged accesses in current contracts.

```
315     /**
316      * @dev Emergency withdraw token's balance on the contract
317      */
318     function emergencyWithdraw(IERC20 token) public nonReentrant onlyOwner {
319         uint256 balance = token.balanceOf(address(this));
320         require(balance > 0, "emergencyWithdraw: token balance is null");
321         _safeTokenTransfer(token, msg.sender, balance);
322     }
323
324     /**
```

```
325      * @dev Emergency withdraw all dividend tokens' balances on the contract
326      */
327     function emergencyWithdrawAll() external nonReentrant onlyOwner {
328         for (uint256 index = 0; index < _distributedTokens.length(); ++index) {
329             emergencyWithdraw(IERC20(_distributedTokens.at(index)));
330         }
331     }
```

Listing 3.2: Example Privileged Opeations in `Dividends`

We understand the need of the privileged functions for proper contract operations, but at the same time the extra power to these privileged accounts may also be a counter-party risk to the contract users. Therefore, we list this concern as an issue here from the audit perspective and highly recommend making these privileges explicit or raising necessary awareness among protocol users.

Recommendation Promptly transfer the privileged account to the intended `DAO`-like governance contract. All changed to privileged operations may need to be mediated with necessary timelocks. Eventually, activate the normal on-chain community-based governance life-cycle and ensure the intended trustless nature and high-quality distributed governance.

Status The team has confirmed that the admin keys will be run behind by a `timelock`.

4 | Conclusion

In this audit, we have analyzed the design and implementation of the ZyberSwap protocol, which is the first decentralized exchange in the Arbitrum ecosystem that implemented Algebra Concentrated Liquidity solution. In addition to swapping, yield farming, and staking, Zyberswap offers active management of liquidity, which is made possible by collaboration with Gamma. Additionally, Zyberswap aims to fully involve its users in decision-making. All major changes are decided via governance voting. The current code base is well structured and neatly organized. Those identified issues are promptly confirmed and addressed.

Meanwhile, we need to emphasize that Solidity-based smart contracts as a whole are still in an early, but exciting stage of development. To improve this report, we greatly appreciate any constructive feedbacks or suggestions, on our methodology, audit findings, or potential gaps in scope/coverage.

References

[1] MITRE. CWE-287: Improper Authentication. https://cwe.mitre.org/data/definitions/287.html.

[2] MITRE. CWE-841: Improper Enforcement of Behavioral Workflow. https://cwe.mitre.org/data/definitions/841.html.

[3] MITRE. CWE CATEGORY: 7PK - Security Features. https://cwe.mitre.org/data/definitions/254.html.

[4] MITRE. CWE CATEGORY: Business Logic Errors. https://cwe.mitre.org/data/definitions/840.html.

[5] MITRE. CWE VIEW: Development Concepts. https://cwe.mitre.org/data/definitions/699.html.

[6] OWASP. Risk Rating Methodology. https://www.owasp.org/index.php/OWASP_Risk_Rating_Methodology.

[7] PeckShield. PeckShield Inc. https://www.peckshield.com.