

Code Assessment of the PSM Lite Smart Contracts

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Produced for



by



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1 Executive Summary

Dear all,

Thank you for trusting us to help Maker with this security audit. Our executive summary provides an overview of subjects covered in our audit of the latest reviewed contracts of PSM Lite according to [Scope](#) to support you in forming an opinion on their security risks.

Maker implements a gas-efficient Peg Stability Module (PSM) where users can freely swap Dai for stablecoins.

The most critical subjects covered in our audit are functional correctness, assets solvency and the correct adherence to the MakerDAO specifications. Security regarding all the aforementioned subjects is high.

The general subjects covered are access control, interaction with third party systems and the documentation. Security regarding all the aforementioned subjects is high.

In summary, we find that the codebase provides a high level of security.

It is important to note that security audits are time-boxed and cannot uncover all vulnerabilities. They complement but don't replace other vital measures to secure a project.

The following sections will give an overview of the system, our methodology, the issues uncovered and how they have been addressed. We are happy to receive questions and feedback to improve our service.

Sincerely yours,

ChainSecurity

1.1 Overview of the Findings

Below we provide a brief numerical overview of the findings and how they have been addressed.

Critical -Severity Findings	0
High -Severity Findings	0
Medium -Severity Findings	0
Low -Severity Findings	4
• Code Corrected	2
• Specification Changed	1
• Risk Accepted	1

2 Assessment Overview

In this section, we briefly describe the overall structure and scope of the engagement, including the code commit which is referenced throughout this report.

2.1 Scope

The assessment was performed on the source code files inside the PSM Lite repository based on the documentation files.

The scope consists of the two solidity smart contracts:

1. ./src/DssLitePsm.sol
2. ./src/DssPocket.sol

In **Version 4** the following files have been added:

1. script/DssLitePsmDeploy.s.sol
2. script/dependencies/DssLitePsmDeploy.sol
3. script/dependencies/DssLitePsmInit.sol
4. script/dependencies/DssLitePsmInstance.sol

In **Version 5**, ./src/DssLitePsmMom.sol has been added.

In this review, it is assumed that the deployment and initialization scripts are explicitly used to deploy a new LitePSM-USDC with a pocket and migrate the existing PSM to the new one.

The table below indicates the code versions relevant to this report and when they were received.

V	Date	Commit Hash	Note
1	16 October 2023	5a1d92d53a3cd6958073faf534b57b8eb50e3882	Initial Version
2	19 October 2023	3ec57f35fdd910ab765379c324a4dc2a7c08d54a	Updated Design
3	20 October 2023	bc6f46d4a9b254f43f009c339f547e401208403b	After Intermediate Report
4	13 November 2023	1ee98ee06ba27ee35166f5b62de19d7abe617916	Deployment Script
5	22 November 2023	7d3af40cb539936bfe690e6d96c95996cf648660	PSM Mom
6	23 November 2023	aadc4b2909fb4feb1b9998d137aede5f57c73169	Fix Ilk Class

For the Solidity smart contracts, the compiler version 0.8.16 was chosen.

2.1.1 Excluded from scope

Any other files not explicitly mentioned in the scope section. In particular tests, scripts, external dependencies, and configuration files are not part of the audit scope.

In addition, the following known risks are out of the scope of this review:

- Holding a significant amount of centralized tokens in the PSM, like USDC, carries inherent risks of centralization.
- Similar to the existing PSM implementation, repeatedly swapping Gem for Dai might efficiently bloat the global debt to Line and block borrowing with other collaterals.

2.2 System Overview

This system overview describes the initially received version (**Version 1**) of the contracts as defined in the [Assessment Overview](#).

Furthermore, in the findings section, we have added a version icon to each of the findings to increase the readability of the report.

Maker offers Peg Stability Module (PSM) Lite, a gas-efficient facility through which users can freely swap Dai for stablecoins with no slippage.

2.2.1 DssLitePsm

A PSM enables users to swap between Dai and a specific stablecoin at a fixed 1:1 conversion rate (with a fee if it is turned on). PSM-Lite is more gas efficient compared to its predecessors due to the separation of the swaps and VAT manipulations. Users can directly swap in a pool of pre-minted Dai and stablecoins without interacting with the VAT. The pool can be refilled or deflated up to certain limits in a permissionless way, which involves VAT interactions. The Dais are minted using a special ilk in the VAT, the actual gem tokens are held by the pocket contract.

The contract is governed by `wards` with the privilege to the following functions:

- `rely()` - grants admin privilege to an address.
- `deny()` - revokes admin privilege from an address.
- `kiss()` - grants an address the permission to swap without fees.
- `diss()` - revokes the permission of swapping without fees from an address.
- `file(bytes32 what, address data)` - update the VOW address.
- `file(bytes32 what, uint256 data)` - update the fee-related parameters `tin` and `tout` and buffer size `buf`.

The following public functions are provided:

- `rush()` - returns the missing Dai that can be filled into this contract. The target is to have `buf` amount of DAI available. Minting DAI is limited by the ilk limit (`line`) and the global debt limit (`Line`).
- `gush()` - returns the excess Dai that can be trimmed from this contract. The target is to leave `buf` amount of DAI at the contract, surplus is to be trimmed. In case the ilk's debt limit (`line`) is currently exceeded (as it was reduced), the function attempts to return all DAI necessary. In version 1 of the code `gush()` additionally takes `Line` into account. The amount of DAI returned is capped by the currently available DAI balance.
- `cut()` - returns the amount of accumulated swapping fees that can be harvested from this contract.

It implements the following permissionless entry points:

- `sellGem()` - a user can swap gem tokens to pre-minted Dai with a fee. The gem tokens will be sent to the pocket contract.
- `buyGem()` - a user can swap Dai tokens to gem with a fee. The gem tokens will be transferred from the pocket contract to the receiver.

- `fill()` - a user can mint more Dai to the pool by the amount of `rush()`.
- `trim()` - a user can trim Dai from the pool by the amount of `gush()`.
- `chug()` - a user can push the accumulated fees to the VOW. The Dai tokens are deposited into DAIJoin with the VOW as beneficiary.

Besides, `buyGemNoFee()` and `sellGemNoFee()` are the permissioned counterparties for `buyGem()` and `sellGem()`, designed for the authorized parties to swap without fees.

2.2.2 DssPocket

The gem received from the swaps will be placed in the pocket contract, which is fully governed by its wards with the following permissioned entry points:

- `rely()` - grants admin privilege to an address.
- `deny()` - revokes admin privilege from an address.
- `hope()` - grants an address the permission to spend `max(uint256)` gem on behalf of this contract.
- `nope()` - fully revokes an address's permission to spend gem on behalf of this contract.

2.2.3 Changes in Version 2

- Instead of creating/burning the special ilk to increase its gem balance every time in `fill()` and `trim()`, the urn for DssLitePsm in the VAT is expected to have "unlimited" ink. DssLitePsm no longer manipulates the ink of the urn.
- The excess Dai that can be trimmed from this contract (`gush()`) has been changed to disregard the gap between the global debt (`debt`) and limit (`Line`).

2.2.4 Changes in Version 4

A deployment script has been added in [Version 4](#), which deploys a DssLitePsm with a pocket and migrates the existing Psm (SrcPsm) to the new DssLitePsm.

The following sanity checks are adopted in `DssLitePsmInit`:

- The key used for `srcPsmKey`, `DssLitePsm`, and `pocket` are different in chainlog.
- The newly deployed DssLitePsm and pocket are connected correctly.
- SrcPsm has the same gem as DssLitePsm
- The price of SrcPsm's ilk is 1.
- SrcPsm's ilk is only used by SrcPsm, and SrcPsm's ink equals SrcPsm's art.

Then, the following steps are executed for the initialization and migration:

1. The specific ilk for DssLitePsm is added to VAT, JUG and SPOT. The pip of SrcPsm is reused and the price is set to 1.
2. The individual line of the specific ilk and Line are updated by art of SrcPsm (`src.art`) in VAT for DssLitePsm.
3. `max(uint256) / RAY` amount of specific ilk is minted to DssLitePsm and locked into DssLitePsm's urn.
4. The `buf` of DssLitePsm is set to `src.art`, fees are set to 0, and it is filled with pre-minted Dai (`DssLitePsm.fill()`). This is done to allow gem migration.
5. Migrate the gem from SrcPsm:

1. Grab the collateral and debt from SrcPsm to the initializing contract.
2. Exit the gem tokens from GemJoin and transfer to the initializing contract.
3. Swap the gem tokens to Dai in DssLitePsm.
4. Erase the bad debt by the swapped Dai via `vat.heal()`.
6. Set the auto-line configuration for DssLitePsm to enable adjusting the line of the specific ilk in a permissionless way.
7. Set actual parameters of DssLitePsm (`buf`, `tin`, and `tout`).
8. Fill the DssLitePsm to make liquidity available immediately after initialization.
9. Add the specific ilk to the ilk registry.
10. Add DssLitePsm and pocket to chainlog.

2.2.5 Changes in Version 5

DssLitePsmMom has been added to the codebase in **Version 5**, it is designed to execute governance actions on the PSM without delay. The governance can halt (`halt()`) either the inflow or the outflow of the gems from the PSM by setting the swap fees to a special value (`type(uint256).max`).

DssLitePsm and the deployment scripts have been adapted to reflect the changes.

2.2.6 Roles and Trust Model

The DS-Pause-Proxy is expected to be the ultimate admin (ward role) of the DssLitePsm. The role should be set after the deployment by the deployer. Any privileged action performed on the contracts, is expected to be executed through well-considered and inspected governance spells. In case there are any other wards of the contracts, they are assumed to be fully trusted and never act against the interest of the system and users.

The state variables `VOW`, `tin`, `tout`, `buf`, `bud` of DssLitePsm are not initialized in the constructor. They should be properly set upon deployment, otherwise the contract cannot function correctly. For example, in case `buf < ilk.dust` or `buf > ilk.line`, no Dai can be pre-minted due to the checks in VAT.

The wards of DssPocket are trusted. It is assumed that only the DssLitePsm has `max(uint256)` allowance from DssPocket, which can freely transfer `gem` on behalf of pocket. The `bud` of DssLitePsm, who can swap without fees, are fully trusted. The users of DssLitePsm are not trusted.

The following assumptions are further made:

1. There are no other urns for the same `ilk`.
2. Stability fee is always zero for the `ilk` (`ilk.rate == RAY`).
3. The `spot` price for gem is always 1 (`ilk.spot == RAY`).
4. No liquidations on this specific `ilk`.

The gem tokens used are assumed to be within 18 decimals. Weird tokens such as rebasing tokens and tokens with transfer fees are not expected to be used. The system is also subject to the potential risks of upgradability, blacklisting, pausing, and frozen of the gem tokens.

For the deployment script in **Version 4**, it is assumed that the `JUG.base` will be 0, so there would be no interest accrued for the new PSM. The deployers are supposed to deploy the contracts as specified by the reviewed script. Deployers are, however, EOAs that could perform unlawful actions besides simple deployment, such as changing the settings of the newly deployed or granting themselves special privileges. This cannot be fully inspected through the initialization library, which is expected to be executed via governance spells. It is important that after deployment, concerned parties thoroughly check the state of the deployed contracts to ensure that no unexpected action has been taken on them during deployment (deployment validation).

In **Version 5**, it is further assumed the PSM Mom has the ward role on DssLitePsm. The owner of Psm Mom is assumed to be the DS-Pause-Proxy, and its authority is assumed to be the MCD_ADM.

3 Limitations and use of report

Security assessments cannot uncover all existing vulnerabilities; even an assessment in which no vulnerabilities are found is not a guarantee of a secure system. However, code assessments enable the discovery of vulnerabilities that were overlooked during development and areas where additional security measures are necessary. In most cases, applications are either fully protected against a certain type of attack, or they are completely unprotected against it. Some of the issues may affect the entire application, while some lack protection only in certain areas. This is why we carry out a source code assessment aimed at determining all locations that need to be fixed. Within the customer-determined time frame, ChainSecurity has performed an assessment in order to discover as many vulnerabilities as possible.

The focus of our assessment was limited to the code parts defined in the engagement letter. We assessed whether the project follows the provided specifications. These assessments are based on the provided threat model and trust assumptions. We draw attention to the fact that due to inherent limitations in any software development process and software product, an inherent risk exists that even major failures or malfunctions can remain undetected. Further uncertainties exist in any software product or application used during the development, which itself cannot be free from any error or failures. These preconditions can have an impact on the system's code and/or functions and/or operation. We did not assess the underlying third-party infrastructure which adds further inherent risks as we rely on the correct execution of the included third-party technology stack itself. Report readers should also take into account that over the life cycle of any software, changes to the product itself or to the environment in which it is operated can have an impact leading to operational behaviors other than those initially determined in the business specification.

4 Terminology

For the purpose of this assessment, we adopt the following terminology. To classify the severity of our findings, we determine the likelihood and impact (according to the CVSS risk rating methodology).

- *Likelihood* represents the likelihood of a finding to be triggered or exploited in practice
- *Impact* specifies the technical and business-related consequences of a finding
- *Severity* is derived based on the likelihood and the impact

We categorize the findings into four distinct categories, depending on their severity. These severities are derived from the likelihood and the impact using the following table, following a standard risk assessment procedure.

Likelihood	Impact		
	High	Medium	Low
High	Critical	High	Medium
Medium	High	Medium	Low
Low	Medium	Low	Low

As seen in the table above, findings that have both a high likelihood and a high impact are classified as critical. Intuitively, such findings are likely to be triggered and cause significant disruption. Overall, the severity correlates with the associated risk. However, every finding's risk should always be closely checked, regardless of severity.

5 Findings

In this section, we describe any open findings. Findings that have been resolved have been moved to the [Resolved Findings](#) section. The findings are split into these different categories:

- **Security**: Related to vulnerabilities that could be exploited by malicious actors
- **Correctness**: Mismatches between specification and implementation

Below we provide a numerical overview of the identified findings, split up by their severity.

Critical -Severity Findings	0
High -Severity Findings	0
Medium -Severity Findings	0
Low -Severity Findings	1

- [Unchecked Return Value of transferFrom](#) **Risk Accepted**

5.1 Unchecked Return Value of transferFrom

Security **Low** **Version 1** **Risk Accepted**

CS-MKPSML-001

In DssLitePsm, the return value of `transferFrom()` is not checked. It relies on the token to revert if the transfer fails which is given for the intended gem token (USDC). Generally however, according to the ERC20 specification upon a failed transfer the token may revert or simply returns `false`. In case the gem token's implementation returns `false` on a failed `transferFrom()` instead of reverting, DssLitePsm will still treat it as a success and proceed.

Risk accepted:

Maker states:

We do not plan to support ERC-20 tokens that do not revert on a failed transfer. We might want to support tokens that do not return true on succeeded transfers.

6 Resolved Findings

Here, we list findings that have been resolved during the course of the engagement. Their categories are explained in the [Findings](#) section.

Below we provide a numerical overview of the identified findings, split up by their severity.

Critical -Severity Findings	0
High -Severity Findings	0
Medium -Severity Findings	0
Low -Severity Findings	3
<ul style="list-style-type: none">• Incorrect Ilk Class Code Corrected• Uninitialized Vow in DssLitePsmInit Code Corrected• Inaccurate Specification Specification Changed	
Informational Findings	3
<ul style="list-style-type: none">• Fill More Than buf Possible Specification Changed• Unpermissioned Repay of Art, Remaining Collateral Balance Code Corrected• The Optimizer Is Disabled Code Corrected	

6.1 Incorrect Ilk Class

Correctness **Low** **Version 4** **Code Corrected**

CS-MKPSML-006

Regarding `ilk.class`, the Ilk Registry states:

```
Classification code (1 - clip, 2 - flip, 3+ - other)
```

In PSM initialization script (`DssLitePsmInit.sol`), the class of the existing PSM (`src.class`) is reused to register the specific ilk for `DssLitePsm` (For PSM-USDC, `src.class==1`). Nevertheless, in contrast to the existing PSM, `DssLitePsm` does not have auction modules and cannot be liquidated. Hence directly reusing `src.class` does not comply to the specifications.

Code corrected:

The `ilk.class` for the newly deployed `DssLitePsm` has been changed to a constant 6 (a new `IlkRegistry` class), representing a specific ilk type without an associated `GemJoin`.

6.2 Uninitialized Vow in DssLitePsmInit

Correctness **Low** **Version 4** **Code Corrected**

CS-MKPSML-009



Library `DssLitePsmInit` does not initialize the vow of the newly deployed `DssLitePsm`. Consequently the outstanding accumulated fees cannot be harvested into the surplus buffer (`chug()`), and it would require another governance spell to set the vow.

Code corrected:

Maker has corrected the code in [Version 5](#). The vow is now initialized in the `DssLitePsmInit.init` function:

```
DssLitePsmLike(inst.litePsm).file("vow", dss.chainlog.getAddress("MCD_VOW"));
```

6.3 Inaccurate Specification

Correctness **Low** **Version 1** **Specification Changed**

CS-MKPSML-007

The specification of `DssPocket` states "Can grant or revoke infinite *gem* approvals". Not all *gem* tokens treat `max(uint256)` as truly unlimited allowance, though it is unlikely to exhaust `max(uint256)` allowance in practice .

Specification changed:

The specification has been updated to read up to `max(uint256)` instead of *infinite*.

6.4 Fill More Than buf Possible

Informational **Version 1** **Specification Changed**

CS-MKPSML-008

The specification of `fill()` states "Mints Dai into this contract up to `buf` value". This is not entirely accurate since the amount of DAI to be minted depends on the current `art` of the urn and the amount of *gem* at the pocket. Both of which can be manipulated by anyone if one is ready to spend money to:

- Inflate `tArt` by donating *gem* tokens to `DssPocket`.
- Deflate `Art` by repaying on behalf of `DssLitePsm` in VAT.

Consequently the amount to be refilled (computed in `rush()`), depending on the actual circumstances may result in:

- More than `buf` amount of DAI at the `DssLitePsm` after `fill()`.
 - More than `buf` amount of DAI minted during `fill()`.
-

Specification changed:

The specification has been updated to reflect how the extraneous influences might affect the amount minted by `fill()`.

6.5 The Optimizer Is Disabled

Informational Version 1 Code Corrected

CS-MKPSML-011

The optimizer is disabled in `foundry.toml`. Enabling the optimizer can help to further improve the gas efficiency.

Code corrected:

The optimizer has been enabled in `foundry.toml`.

6.6 Unpermissioned Repay of Art, Remaining Collateral Balance

Informational Version 1 Code Corrected

CS-MKPSML-010

In the VAT it's possible to repay debt for any urn by using `VAT.frob()` without requiring permissions. If this is done for the special urn of `DssLitePsm`, this has the following consequences:

- `DssLitePSM`'s urn `art` will reduce while `ink` remains unchanged.
 - Once the fees are collected through `chug()` the corresponding surplus will be paid out as part of the fees. The collateral accounting in the VAT is not updated, the `ink` balance remains, despite the funds now having left the system.
-

Code corrected:

In [Version 2](#) the design has been changed, the `ink` of the urn is expected to be unlimited and is no longer modified by this contract.

7 Informational

We utilize this section to point out informational findings that are less severe than issues. These informational issues allow us to point out more theoretical findings. Their explanation hopefully improves the overall understanding of the project's security. Furthermore, we point out findings which are unrelated to security.

7.1 Lack of Sanity Checks

Informational **Version 4**

CS-MKPSML-002

While the `DssLitePsmInit` script implements many sanity checks, `DssLitePsm.tol8ConversionFactor()` is not validated to be the expected value.

7.2 No Dai May Be Available if Limit Is Reached

Informational **Version 1** **Acknowledged**

CS-MKPSML-003

`DssLitePsm` may not achieve its full functionalities in case the individual debt limit (`ilk.line`) or the global debt limit (`VAT.Line`) is reached. In this case, the pool cannot be refilled. As long as no or insufficient DAI balance is available, users can only swap DAI for gem tokens (which in turn makes some DAI available).

Acknowledged:

Maker has acknowledged the behavior of the pool if the debt limit is reached.

7.3 No Fees on Small Swap Amounts

Informational **Version 1** **Acknowledged**

CS-MKPSML-004

Following the design of the existing PSMs, the fees of the swaps are computed and rounded down as:

```
fee = daiOutWad * tin_ / WAD  
  
fee = daiInWad * tout_ / WAD;
```

As a result, amounts of `daiOutWad` or `daiInWad` may avoid the swap fees due to the rounding errors. Compared to the gas costs, this is negligible.

Acknowledged:

This behavior is now documented in the code.

7.4 Trim May Fail if Art Is Below Dust

Informational Version 1 Acknowledged

CS-MKPSML-005

`Trim()` will burn Dai and decrease the debt `urn.art`. If the resulting `art` of the `urn` is non-zero but below `ilk.dust` this fails. For this special collateral, `ilk.dust` should be set to 0.

Acknowledged:

Maker has acknowledged the edge case if `ilk.dust` is not set properly.

8 Notes

We leverage this section to highlight further findings that are not necessarily issues. The mentioned topics serve to clarify or support the report, but do not require an immediate modification inside the project. Instead, they should raise awareness in order to improve the overall understanding.

8.1 Changes Compared to the Existing PSMs

Note **Version 1**

There are currently three active PSMs for USDC, Gemini-USD and Pax-USD at the time of this review (October 2023). The PSM Lite has the following changes:

1. In the existing PSMs the gem tokens are deposited into a Gemjoin adapter before `art` is generated and DAIs are minted. PSM Lite use a special ilk for Dai minting ahead of time. Once these DAIs are exchanged for gem tokens, these tokens are held within DssPocket.
2. The volume for a single swap is only limited by the `ilk.line`, `debt`, and `Line` in the existing implementation. PSM Lite introduces a pool of pre-minted Dai limited by `buf` size, which may not satisfy a single swap with an exceeding volume. In this case the single swap should be broken down into several smaller swaps, in between of which the pool can be refilled (`fill()`) by the user.

8.2 Considerations for Initialization

Note **Version 1**

While the initialization script for the PSM performs many sanity checks to prevent malicious deployments, it cannot check everything. The governance should, before approving any spell, carefully evaluate the deployment process. Namely, the following should be considered:

1. The init code of the contracts should match the init code generated by the compiler with the correct immutables attached. As a consequence, it can be ensured that the bytecode is correct and that the constructor has not been altered to perform malicious actions (e.g. give approvals to arbitrary addresses).
2. The only successful calls made to the contracts after their creation should be the following (in the same order for both contracts):
 1. `rely()` to give the governance a privileged role.
 2. `deny()` to remove the privileged role from the deployer.

8.3 DssLitePsm Does Not Support Global Settlement

Note **Version 1**

At the time of this review, Emergency Shutdown Module (ESM) is still functioning and could be triggered by users burning sufficient MKR. However, DssLitePsm does not support the coordinated Shutdown / Global Settlement anymore. It is expected that the ESM is disabled by setting its threshold large enough prior to the deployment of `DssLitePsm`, so Emergency Shutdown can never be called.

8.4 Swaps Are Subject to Front-Running

Note Version 1

A user's swap can be front-run by another swap of the same direction, which will leave insufficient Dai or gem tokens and revert the user's swap. In the former case, users can bundle a `fill()` before the swap to refill the pool with newly minted Dai. This is well documented in the README of PSM Lite.