

Benchmarks and Vulnerabilities of DeFi

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0.1 Introduction

DeFi or Decentralised Finance is an open, permissionless, and highly interoperable protocol stack built on public smart contract platforms, such as the Ethereum blockchain. Instead of relying on intermediaries of traditional financial instruments like brokerages, exchanges, or banks it depends on open protocols and DApps. The agreement between two parties are enforced by code that executes all the transactions in a way that is verified by all the nodes in a blockchain and this is secure. The design is such that there is no central authority.

Smart Contracts are central to a DeFi infrastructure. Smart contract is a code in a high level language that is executed on blockchain to complete a transaction automatically and is verified by large number of validators. Since the smart contracts are to be verified by large number of validators the throughput is often slow as compared to the system of servant client architecture where we trust the server or a central authority but because of validations the transaction is much more secure.

0.2 Benchmarks of DeFi

- Transparency: Since DeFi is a blockchain based infrastructure so transactions are publicly observable and smart contract code can be analysed on chain.
- Accessibility: (Working on unable to find good resources)

0.3 Security vulnerabilities of DeFi

1. **Smart Contract Vulnerability:** Smart Contract Vulnerability risk is the risk caused due to an incorrect code of smart contract or an attacker using well known attack vectors to alter functionalities of a smart code. The most famous of such smart contract attacks is 'The DAO' attack which used the re-entrancy vulnerability and the cost to about 60 million dollars of ETH.

Some Smart Contract Vulnerability Risks are as follows:

- (a) **Re-Entrancy Vulnerability:** The vulnerability occurs because of incorrect code. The vulnerability occurs if a function to be executed can call another function (maybe from a different contract) in the middle of its execution and the function called can re-invoke the original

function without completing the instructions of the parent function that are responsible for critical state change. For example: If ETH in a contract are sent before state change it might be possible that the target address is itself a contract that might call for requesting ETH again causing a cycle without state change and possibility of extracting huge amounts of ETH. The 'DAO' attack utilised this vulnerability and became the worst attack so far.

```

1
2 // INSECURE
3 mapping (address => uint) private userBalances;
4
5 function withdrawBalance() public {
6     uint amountToWithdraw = userBalances[msg.sender];
7     (bool, success) = msg.sender.call.value(
        amountToWithdraw)(""); // At this point, the
        caller's code is executed, and can call
        withdrawBalance again
8     require(success);
9     userBalances[msg.sender] = 0;
10 }

```

In the above example there is a transfer of control from withdrawBalance() function to msg.sender.call.value(amount)(). The attacker's fallback function might call withdrawBalance() again, thus leading to ETH extraction until the stack size limit is not reached.

- (b) **Unhandled Exceptions Vulnerability:** A smart contract does not work independently and often calls another contract's function to complete the transaction functionality, calls are made by sending instructions with a reference to the contract. If an exception is raised it results in termination of contract and reverting to original state. But some low level operations in Solidity such as **send** doesn't throw an exception but instead return a boolean to mark success or failure. If the return value is unchecked in the caller function it might continue execution even when the payment failed causing inconsistencies.

```

1
2 function pay(employee){
3     if(!emp_paid[employee]){
4         employee.send(salaries[employee]);
5         emp_paid[employee] = true;
6     }
7 }

```

In the above example since the return value of send is unchecked even if a send fails employee being paid will be marked true for the and hence cause inconsistencies.

- (c) **Integer Underflow/Overflow Vulnerability:** The risk is common to not only Solidity but to most programming languages and is the most common vulnerability in most Smart Contracts. The Solidity compiler does not trigger any error flag to resolve the code with integer overflow/underflow problem. If an integer variable is assigned to a value larger than the number for the assigned range for example in the case uint8 max value is 255, it resets to 0; if the variable assigned to a value less than the range, it would be reset to the top

value of the range. If a loop counter were to overflow, creating an infinite loop, the funds of a contract could become completely frozen. This can be exploited by an attacker if he has a way of incrementing the number of iterations of the loop, for example, by registering enough users to trigger an overflow. 'Proof of Weak Hands' is the famous hack that utilised the risk. The risk is more in case of smart contracts where values goes to 0 and changing it to negative might make it the largest number.

- (d) **Time Stamp Dependence Vulnerability:** In block chain time is asynchronous and not a synchronous digital clock. If a contract uses the `block.timestamp` (or `now`) global variable as a triggering condition for executing a critical operation (e.g. a money transfer) or as a source of randomness, it can be manipulated by a malicious miner. If a miner holds a stake on a contract, he/she could gain an advantage by choosing a suitable timestamp for a block he/she is mining
 - (e) **Unrestricted Action:** Often there is check about who can make a particular change by using the senders address, this is done to restrict the action of a particular user. Typically, only the owner of a contract should be allowed to destroy the contract or set a new owner. It is possible not only if the programmer has not performed checks for the same but also if the attacker executes arbitrary code, for example by being able to control the address of a delegated call
 - (f) **Locked Ether:** Funds might be locked permanently is a possibility. One reason might be the contract is dependent on other contract which if possible to be killed by anyone using `SELFDESTRUCT` which is the contract code is removed and if this was the only means for the contract to complete, it would result in funds being locked permanently. Parity wallet hack locking millions is an example of such a vulnerability. It is also possible that the contract will always run out of gas when trying to send Ether which could result in locking the contract fund.
2. **Transaction Ordering Dependency Vulnerability:** It is possible that multiple transactions could be present in the block that are allowed to change the state of a contract. So the reordering might be of concern as Miner mines the one with higher gas and it is possible to have case in which there is a reward with puzzle solved and a transaction then if multiple transaction then a malicious owner might reduce the prize.
 3. **Design Risk:** DeFi often utilises the code of others with its own code. So even if DeFi has high levels of risk mitigation if it adds a new smart contract or protocol which is less secure it still poses a threat to the whole transaction,

0.4 References

1. https://www.researchgate.net/publication/344689196_Identifying_Key_Non_Financial_Risks_in_Decentralised_Finance_on_Ethereum_Blockchain

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3. https://consensys.github.io/smart-contract-best-practices/known_attacks/