

# Code Assessment of the DSS Allocator 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 DSS Allocator according to [Scope](#) to support you in forming an opinion on their security risks.

Maker implements a token allocation system for AllocatorDAOs which consists of a core, a funnel and an automation layer.

The most critical subjects covered in our audit are asset solvency, access control and functional correctness. Security regarding all the aforementioned subjects is high.

The general subjects covered are specification and integration with 3rd party systems. All the aforementioned subjects are covered well.

In summary, we find that the codebase provides a good 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.

<b>Critical</b> -Severity Findings	0
<b>High</b> -Severity Findings	0
<b>Medium</b> -Severity Findings	0
<b>Low</b> -Severity Findings	2
• <b>Code Corrected</b>	2

## 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 DSS Allocator repository based on the documentation files. The table below indicates the code versions relevant to this report and when they were received.

V	Date	Commit Hash	Note
1	17 Aug 2023	5af7242af3825009b7463c6842cbde5e075dcc16	Initial Version
2	23 Aug 2023	40005875d2eb3f6dd67b6267e6091d75e0eed565	Second Version
3	30 Aug 2023	a5469884813528b414ec1c2b985f52dd192455a1	Third Version

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

The following files were in scope:

```
src/AllocatorVault.sol
src/AllocatorOracle.sol
src/IAllocatorConduit.sol
src/AllocatorRoles.sol
src/AllocatorBuffer.sol
src/funnels/callees/SwapperCalleeUniV3.sol
src/funnels/Swapper.sol
src/funnels/DepositorUniV3.sol
src/funnels/automation/StableDepositorUniV3.sol
src/funnels/automation/StableSwapper.sol
src/funnels/automation/ConduitMover.sol
src/funnels/uniV3/LiquidityAmounts.sol
src/funnels/uniV3/TickMath.sol
src/funnels/uniV3/FullMath.sol
src/AllocatorRegistry.sol
```

#### 2.1.1 Excluded from scope

All files not mentioned above are out of scope. Additionally, Uniswap V3 is out-of-scope. All interacted with tokens with transfers are expected to be standard ERC-20 tokens that revert on failure. Further, the selection of parameters is out of scope. Governance is trusted to set parameters correctly to achieve the desired properties. See [Notes](#) for examples of assumptions that should be considered.

Note that shutdown related functionality is explicitly excluded from this contract since, according to scoping, it is assumed to be unreachable.

## 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 a token allocation system for AllocatorDAOs which consists of a core, a funnel and an automation layer.

### 2.2.1 Core Layer

Each AllocatorDAO will have a specific ilk for the minted NST to be allocated. For each such ilk, an AllocatorVault will be the only owner of the urn holding an ink balance for the particular ilk. The ink balance is created with the function `init()` by an authorized role (from the gem balance created by the governance through a call to `Vat.slip()`). Using the ink balance, the AllocatorVault draws debt and mints NSTs through `draw()`. With `wipe` NSTs are burned and debt is repaid. `wipe()` intentionally calls `Jug.drip()` before repaying debt (it is also expected that the AllocatorDAOs will not try to bypass this to have less debt). Note that with function `file()` the Jug can be replaced by an authorized role.

The funds generated are moved to the AllocatorBuffer which can give token approvals to arbitrary addresses (e.g. funnels or conduits) through the authorized function `approve()`. Note that the buffer may also hold tokens other than NSTs as a result of a funnel execution.

The AllocatorRegistry will keep track of mapping ilks to the aforementioned buffers. A new entry can be generated by the authorized function `file()`. However, note that the registry is not used to enforce any properties. Further, note that each gem for the ilk will have a constant price feed of 1M NST, see `AllocatorOracle`.

Each core contract implements the common local access control with `rely()` / `deny()` (except for the `AllocatorOracle`) that grants the rights to call the privileged functions. The AllocatorVault additionally can have custom roles defined in the AllocatorRoles contract. The AllocatorRoles contract allows defining more fine-grained access control which can be done by a role admin that can be defined with `setIlkAdmin()` for a given ilk. That role admin can then proceed to assign roles based on the target contract and function selectors for the ilk he manages (i.e. allowance to call a given function on a given target contract). New roles are created with `setRoleAction()` while roles are assigned with `setUserRole()`.

While the AllocatorVault and the AllocatorBuffer are infrastructure individual to the AllocatorDAO, the remaining contracts of the core are shared infrastructure.

### 2.2.2 Funnel (& Conduit) Layer

Note that conduits are not in scope of this audit.

Funnels & Conduits allow allocating the funds held by the AllocatorBuffer if it has given them the required approvals. Given the buffer-specific nature of funnels, they are to be deployed per buffer. While there is no whitelisting of funnels, Maker implements two funnels:

1. **Swapper**: Authorized addresses can swap funds held by the buffer through a call to function `swapCallback()` on an arbitrary swap callee. However, a token rate limit per era must be respected which must be set through `setLimits()` by authorized addresses. Even though the swapper can be arbitrary, Maker implements `SwapperCalleeUniV3` whose `swapCallback()` routes trades through the Uniswap V3 router.
2. **DepositorUniV3**: Authorized addresses can manage Uniswap V3 positions with `deposit()`, `withdraw()` and `collect()` to add and remove liquidity as well as to collect fees. Note that pool-based limits are in place. Namely, a token rate limit per token per era for both deposits and withdrawals must be respected.

Note that `setLimits()` resets the end to zero, allowing for immediate execution with the new parameters.

Each contract implements the common local access control with `rely()` / `deny()` and pairs it with the usage of the `AllocatorRoles` control.

## 2.2.3 Automation Layer

The automation layer enables the use of funnels and conduits in an automated fashion. More specifically, they wrap funnels/conduits and set further restrictions on the interaction with the underlying contracts. Then, keepers can call the available functions to trigger an allocation execution.

Three such contracts are introduced:

1. `StableSwapper`: Wraps the `Swapper`. With `setConfig()` the number, frequency, source token amount and slippage protection of swaps from source to destination token can be limited. `swap()` wraps `Swapper.swap()`.
2. `StableDepositorUniV3`: Wraps the `DepositorUniV3`. With `setConfig()` the number, frequency, desired token amounts and slippage protection for deposits and withdrawals can be limited. `deposit()`, `withdraw()` and `collect()` wrap the corresponding functions accordingly.
3. `ConduitMover`: Wraps conduits that match the interface. Withdraws from a conduit and deposits to another conduit. Note that in case the buffer is specified as the from or to address, the deposit/withdrawal is not called respectively. With `setConfig()` the number of movements, amounts and frequency from a source to a destination are limited.

Note that `setConfig()` resets the end to zero, allowing for immediate execution with the new parameters.

Each contract implements the common local access control with `rely()` / `deny()` paired with whitelisting functionality `kiss()` / `diss()`.

## 2.2.4 Roles & Trust Model

The Allocation System assumes that the ESM threshold is set large enough prior to its deployment, so Emergency Shutdown can never be called.

The `PauseProxy` as well as the `AllocatorDAO Proxy` are expected to be the ultimate admins of the Allocation System. They perform actions through spells with a governance delay.

1. The `PauseProxy` is expected to be the ward of the `AllocatorRoles` and `AllocatorRegistry` singleton contract.
2. The `AllocatorDAO Proxy` is expected to be the ward of the individual `AllocatorVault` and the `AllocatorBuffer` contract. It is also expected to be an `ilkAuth` of its own `ilk` in `AllocatorRoles`, to add operators to its funnel network. Furthermore, it should be in charge of setting the rate-limiting parameters for its operators.

The operators (e.g. the automation contracts) can be whitelisted through the `AllocatorRoles` contract by the respective Proxy. They can perform predefined actions on the `AllocatorVault`, the funnels and the conduits. It is assumed the operators are inspected and set carefully by the governance.

The keepers are optional actors that can be setup to trigger the automation contracts in case repetitive actions are required, such as swap, deposit, withdraw, collect fees, and move funds between conduits. Their ability to arbitrage the system is always limited by the config the governance set.

We expect the governance to carefully inspect the proposal upon deployment of the contracts as well as any privileged actions. In case there are any other wards than the aforementioned proxies, they are assumed to be trusted and never act against the interest of the system and users. Otherwise, the funds could be stolen from the buffer. The keepers are not trusted and the configs are expected to be set correctly to limit their arbitrage ability.

## 2.2.5 *Changes in* Version 2

The `init()` function has been removed. The functionality will be executed by governance through a governance spell.



### 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:

- **Correctness**: Mismatches between specification and implementation

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

<b>Critical</b> -Severity Findings	0
<b>High</b> -Severity Findings	0
<b>Medium</b> -Severity Findings	0
<b>Low</b> -Severity Findings	0

## 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.

<b>Critical</b> -Severity Findings	0
<b>High</b> -Severity Findings	0
<b>Medium</b> -Severity Findings	0
<b>Low</b> -Severity Findings	2

- [Impossibility to Create One-Side Token1 Liquidity](#) **Code Corrected**
- [Incorrect Uniswap V3 Path Interpretation](#) **Code Corrected**

### 6.1 Impossibility to Create One-Side Token1 Liquidity

**Correctness** **Low** **Version 1** **Code Corrected**

CS-MKALLOC-002

The `DepositorUniV3` funnel has a `uniswapV3MintCallback()` function for properly integrating with Uniswap V3 and move the funds. However, it only moves funds if the owed amount in `token0` is greater than 0. Hence, if the current tick is outside of the position's tick range so that it leads to one-sided liquidity in `token1`, no funds will be transferrable. Ultimately, one-sided `token1` liquidity cannot be added. Thus, deposits could be temporarily DOSed.

#### Code corrected:

`amt1Owed` is now used for transfers of `token1`.

### 6.2 Incorrect Uniswap V3 Path Interpretation

**Correctness** **Low** **Version 1** **Code Corrected**

CS-MKALLOC-003

The swapper callback contract for UniswapV3 interprets the last tokens as follows:

```
lastToken := div(mload(sub(add(add(path, 0x20), mload(path)), 0x14)), 0x100000000000000000000000000000000)
```

Namely, it loads the last 20 bytes as the last token. However, the path may have some additional unused data so that the last token does not have any effect on the execution. Consider the following example:

1. The path is encoded as `[srcToken fee randomToken dstToken]`.
2. The swapper will interpret `dstToken` as the last token.
3. However, in UniswapV3, `randomToken` will be received.

4. In case no slippage requirements for the amount out are present, `randomToken` will be received successfully and will be stuck in the swapper contract.

Ultimately, the path is wrongly interpreted which could, given some configurations, lead to tokens lost unnecessarily due to bad input values.

---

#### Code corrected:

The check towards the correctness of path encoding has been removed, as it provides a false sense of security. Ultimately, the swap is protected by the minimum output token amount requirement.

Maker states:

```
These checks were only meant to provide more explicit revert reasons for a subset of (common) path misconfigurations and were not meant to catch all possible incorrect path arrays. Ultimately the "Swapper/too-few-dst-received" check is the only one that matters. But since that seems to cause confusion, we just removed the checks.
```

## 6.3 Gas Inefficiencies

Informational Version 1 Code Corrected

CS-MKALLOC-004

Below is a non-exhaustive list of gas inefficiencies:

1. In `AllocatorVault.wipe()`, the call `vat.frob()` takes `address(this)` as an argument for the gem balance manipulation. However, due to the gem balance not being interacted with, using `address(0)` may improve gas consumption minimally.
  2. In the withdrawal and deposit functions of the `UniV3Depositor`, an unnecessary `MSTORE` operation is performed when caching `era` into memory. Using only the `SLOAD` could be sufficient.
- 

#### Code corrected:

Code has been corrected to optimize the gas efficiency.

# 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 1** **Acknowledged**

CS-MKALLOC-001

The code often lacks sanity checks for setting certain variables. The following is a non-exhaustive list:

1. On deployment, the conduit mover does not validate whether the ilk and the buffer match against the registry.
2. Similarly, that is the case for the allocator vault.

---

Maker states:

The sanity checks are done as part of the init functions (to be called in the relevant spell).

## 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 1T NST Minting

**Note** **Version 1**

The documentation specifies that a maximum of 1T NST should be placed and that at most 1T NST should be mintable. However, that may not be the case if the spotter has `mat` and `par` set to unsuitable values. Technically, `Vat.rate` could be decreasing (depending on the `jug`). Hence, with a decreasing rate, more than 1T NST could be minted. Additionally, governance is expected to provide the allocator vault with a gem balance through `Vat.slip()`. Calling this multiple times would allow to re-initialize the allocator vault multiple times to create more ink than intended (and, hence, allowing for more debt than expected).

Ultimately, governance should be careful when choosing properties.

### 8.2 Deposit and Withdraw Share the Same Capacity

**Note** **Version 1**

The governance can set a `PairLimit` in `DepositorUniV3`, which limits the maximum amount of a pair of tokens that can be added or removed from the pool per era. Instead of setting two capacity parameters for adding liquidity and removing liquidity respectively, both actions share the same capacity.

### 8.3 Potentially Outdated Debt Estimation

**Note** **Version 1**

In contract `AllocatorVault`, `debt()` returns an estimation of the debt that is on the Vault's urn. This estimation could be outdated if the vat's rate has not been updated by the `jug.drip()` in the same block.

---

The getter `debt()` has been removed (along with `line()` and `slot()`). Maker states that they are not strictly needed and can be implemented in another contract as well.

### 8.4 Shutdown Not Considered

**Note** **Version 1**

The shutdown was not in scope and users should be aware that consequences of a potential shutdown have not been investigated as part of this audit.

## 8.5 Topology May Break the Intended Rate Limit

### Note Version 1

The keepers' ability to move funds between conduits/buffer and swapping tokens is limited by the triplets (`from`, `to`, `gem`) and (`src`, `dst`, `amt`) respectively. However, the actual funds flow between `from` and `to` (`src` and `dst`) could exceed the config dependent on the topology of the settings.

Assume there is a config that limits moving NST between conduits `CA` and `CB` to 100 per hop: (`CA`, `CB`, 100). If there are another two configs (`CA`, `CX`, 40) and (`CX`, `CB`, 60) exist, then keepers can move at most  $100 + 40 = 140$  DAI from `CA` to `CB` per hop.

The same situation applies to Swapper. Therefore, the topology of the configs should be carefully inspected.

---

Maker states:

The rate limit for each swap/move pair is an authed configuration of the allocator proxy. It is therefore assumed to know what it is doing and is allowed to set any configuration regardless of paths or duplication.