

## Increment Protocol

Security assessment by HashEye · prepared for Increment Finance

HASHEYE AUDITED

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This report was produced under HashEye's layered review process – **automated detection**, **pattern correlation**, and **senior manual verification** – with every finding signed off by a human reviewer. Full findings detail and on-chain attestation are available on the report page at [hashey.io/audits/research-increment-protocol-2022-09-01-1onvh9](https://hashey.io/audits/research-increment-protocol-2022-09-01-1onvh9).

Increment Finance: Increment Protocol Fix Review November 10, 2022 Prepared for: Increment Finance  
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Executive Summary Engagement Overview Increment Finance engaged HashEye to review the security of its Increment Protocol. From August 22 to September 2, 2022, a team of two consultants conducted a security review of the client-provided source code, with four person-weeks of effort. Details of the project's scope, timeline, test targets, and coverage are provided in the original audit

report. Increment Finance contracted HashEye to review the fixes implemented for issues identified in the original report. On October 25, 2022, one consultant conducted a review of the client-provided source code, with four person-hours of effort. Summary of Findings The original audit uncovered significant flaws that could impact system confidentiality, integrity, or availability. A summary of the original findings is provided below. EXPOSURE ANALYSIS Severity Count High 3 Medium 3 Low 2 Informational 5 Undetermined 0 CATEGORY BREAKDOWN Category Count Access Controls 1 Configuration 1 Data Validation 5 Patching 1 Timing 2 Undefined Behavior 3 HashEye 5 Increment Protocol Fix Review PUBLIC

Overview of Fix Review Results Increment Finance has sufficiently addressed most of the issues described in the original audit report. HashEye 6 Increment Protocol Fix Review PUBLIC

Project Summary Contact Information The following managers were associated with this project: Dan Guido , Account Manager Anne Marie Barry , Project Manager dan@hasheye.io annemarie.barry@hasheye.io The following engineers were associated with this project: Anish Naik , Consultant Justin Jacob , Consultant anish.naik@hasheye.io justin.jacob@hasheye.io Vara Prasad Bandaru , Consultant vara.bandaru@hasheye.io Project Timeline The significant events and milestones of the project are listed below. Date Event August 18, 2022 Pre-project kickoff call August 26, 2022 Status update meeting #1 September 2, 2022 Report readout meeting and delivery of report draft November 10, 2022 Delivery of final report and fix review HashEye 7 Increment Protocol Fix Review PUBLIC

Project Methodology Our work in the fix review included the following: • A review of the findings in the original audit report • A manual review of the client-provided source code and configuration material • A review of the documentation provided alongside the codebase HashEye 8 Increment Protocol Fix Review PUBLIC

Project Targets The engagement involved a review of the fixes implemented in the following target. Increment Protocol Repository <https://github.com/Increment-Finance/increment-protocol> Version 9368b23ac2d2f5dc954cc849d20cdeca21d627c6 Type Solidity Platform zkSync HashEye 9 Increment Protocol Fix Review PUBLIC

Summary of Fix Review Results The table below summarizes each of the original findings and indicates whether the issue has been sufficiently resolved. ID Title Status 1 Governance role is a single point of failure Partially Resolved 2 Inconsistent lower bounds on collateral weights Resolved 3 Solidity compiler optimizations can be problematic Unresolved 4 Support for multiple reserve tokens allows for arbitrage Unresolved 5 Ownership transfers can be front-run Resolved 6 Funding payments are made in the wrong token Resolved 7 Excessive dust collection may lead to premature closures of long positions Resolved 8 Problematic use of primitive operations on fixed-point integers Resolved 9 Liquidations are vulnerable to sandwich attacks Resolved 10 Accuracy of market and oracle TWAPs is tied to the frequency of user interactions Resolved 11 Liquidations of short positions may fail because of insufficient dust collection Resolved 12 Project dependencies contain vulnerabilities Resolved HashEye 10 Increment Protocol Fix Review PUBLIC

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Detailed Fix Review Results 1. Governance role is a single point of failure Status: Partially Resolved Severity: High Difficulty: High Type: Access Controls Finding ID: TOB-INC-1 Target: Governance role Description Because the governance role is centralized and responsible for critical functionalities, it constitutes a single point of failure within the Increment Protocol. The role can perform the following privileged operations: • Whitelisting a perpetual market • Setting economic parameters • Updating price oracle addresses and setting fixed prices for assets • Managing protocol insurance funds • Updating the addresses of core contracts • Adding support for new reserve tokens to the UA contract • Pausing and unpausing protocol operations These privileges give governance complete control over the protocol and therefore access to user and protocol funds. This increases the likelihood that the governance account will be targeted by an attacker and incentivizes governance to act maliciously. Note, though, that the governance role is currently controlled by a multisignature wallet (a multisig) and that control may be transferred to a decentralized autonomous organization (DAO) in the future. HashEye 12 Increment Protocol Fix Review PUBLIC

Fix Analysis This issue has been partially resolved . The Increment Finance team minimized the privileges of the governance role by removing its ability to update core contract addresses (i.e., allowing it to set those addresses only once). No other privileges were removed. HashEye 13 Increment Protocol Fix Review PUBLIC

2. Inconsistent lower bounds on collateral weights Status: Resolved Severity: Medium Difficulty: High Type: Data Validation Finding ID: TOB-INC-2 Target: contracts/Vault.sol Description The lower bound on a collateral asset's initial weight (when the collateral is first whitelisted) is

different from that enforced if the weight is updated; this discrepancy increases the likelihood of collateral seizures by liquidators. A collateral asset's weight represents the level of risk associated with accepting that asset as collateral. This risk calculation comes into play when the protocol is assessing whether a liquidator can seize a user's non-UA collateral. To determine the value of each collateral asset, the protocol multiplies the user's balance of that asset by the collateral weight (a percentage). A riskier asset will have a lower weight and thus a lower value. If the total value of a user's non-UA collateral is less than the user's UA debt, a liquidator can seize the collateral. When whitelisting a collateral asset, the `Perpetual.addWhiteListedCollateral` function requires the collateral weight to be between 10% and 100% (figure 2.1). According to the documentation, these are the correct bounds for a collateral asset's weight. function `addWhiteListedCollateral ( IERC20Metadata asset, uint256 weight , uint256 maxAmount ) public override onlyRole(GOVERNANCE) { if (weight < 1e17) revert Vault_InsufficientCollateralWeight(); if (weight > 1e18) revert Vault_ExcessiveCollateralWeight(); [...] }` Figure 2.1: A snippet of the `addWhiteListedCollateral` function in `Vault.sol#L224-230` However, governance can choose to update that weight via a call to `Perpetual.changeCollateralWeight` , which allows the weight to be between 1% and 100% (figure 2.2). HashEye 14 Increment Protocol Fix Review PUBLIC

function `changeCollateralWeight (IERC20Metadata asset, uint256 newWeight ) external override onlyRole(GOVERNANCE) { uint256 tokenId = tokenToCollateralIdx[asset]; if (!(tokenId ≠ 0) || (address (asset) = address (UA))) revert Vault_UnsupportedCollateral(); if (newWeight < 1e16) revert Vault_InsufficientCollateralWeight(); if (newWeight > 1e18) revert Vault_ExcessiveCollateralWeight(); [...] }` Figure 2.2: A snippet of the `changeCollateralWeight` function in `Vault.sol#L254-259` If the weight of a collateral asset were mistakenly set to less than 10%, the value of that collateral would decrease, thereby increasing the likelihood of seizures of non-UA collateral. Fix Analysis This issue has been resolved . The protocol now enforces the same lower bound when setting and updating a collateral asset's weight. HashEye 15 Increment Protocol Fix Review PUBLIC

3. Solidity compiler optimizations can be problematic Status: Unresolved Severity: Informational Difficulty: High Type: Undefined Behavior Finding ID: TOB-INC-3 Target: Increment Protocol Description The Increment Protocol contracts have enabled optional compiler optimizations in Solidity. There have been several optimization bugs with security implications. Moreover, optimizations are actively being developed . Solidity compiler optimizations are disabled by default, and it is unclear how many contracts in the wild actually use them. Therefore, it is unclear how well they are being tested and exercised. Security issues due to optimization bugs have occurred in the past . A medium- to high-severity bug in the Yul optimizer was introduced in Solidity version 0.8.13 and was fixed only recently, in Solidity version 0.8.17 . Another medium-severity optimization bug—one that caused memory writes in inline assembly blocks to be removed under certain conditions —was patched in Solidity 0.8.15. A compiler audit of Solidity from November 2018 concluded that the optional optimizations may not be safe . It is likely that there are latent bugs related to optimization and that new bugs will be introduced due to future optimizations. Fix Analysis This issue has not been resolved. The Increment Finance team is willing to accept the risk of optimization-related bugs. The team provided the following additional context: "We are aware of the risk associated with using an untested compiler and plan to limit the risk using the principles of a protected launch ." HashEye 16 Increment Protocol Fix Review PUBLIC

4. Support for multiple reserve tokens allows for arbitrage Status: Unresolved Severity: Informational Difficulty: Low Type: Undefined Behavior Finding ID: TOB-INC-4 Target: contracts/tokens/UA.sol Description Because the UA token contract supports multiple reserve tokens, it can be used to swap one reserve token for another at a ratio of 1:1. This creates an arbitrage opportunity, as it enables users to swap reserve tokens with different prices. Users can deposit supported reserve tokens in the UA contract in exchange for UA tokens at a 1:1 ratio (figure 4.1). function `mintWithReserve ( uint256 tokenId , uint256 amount ) external override { // Check that the reserve token is supported if (tokenId > reserveTokens.length - 1 ) revert UA_InvalidReserveTokenIndex(); ReserveToken memory reserveToken = reserveTokens[tokenId]; // Check that the cap of the reserve token isn't reached uint256 wadAmount = LibReserve.tokenToWad(reserveToken.asset.decimals(), amount); if (reserveToken.currentReserves + wadAmount > reserveToken.mintCap) revert UA_ExcessiveTokenMintCapReached(); _mint( msg.sender , wadAmount); reserveTokens[tokenId].currentReserves += wadAmount; reserveToken.asset.safeTransferFrom( msg.sender , address ( this ), amount); }` Figure 4.1: The `mintWithReserve` function in `UA.sol#L38-51` Similarly, users can withdraw the amount of a deposit by returning their UA in exchange for any supported reserve token, also at a 1:1 ratio (figure 4.2). function `withdraw ( uint256 tokenId , uint256 amount ) external override { // Check that the reserve token is supported if (tokenId > reserveTokens.length - 1 ) revert UA_InvalidReserveTokenIndex(); IERC20Metadata reserveTokenAsset = reserveTokens[tokenId].asset; }` HashEye 17 Increment Protocol Fix Review PUBLIC

```
_burn( msg.sender , amount); reserveTokens[tokenIdx].currentReserves -= amount; uint256 tokenAmount = LibReserve.wadToToken(reserveTokenAsset.decimals(), amount); reserveTokenAsset.safeTransfer(msg.sender , tokenAmount); }
```

Figure 4.2: The withdraw function in UA.sol#L56-66 Thus, a user could mint UA by depositing a less valuable reserve token and then withdraw the same amount of a more valuable token in one transaction, engaging in arbitrage. Fix Analysis This issue has not been resolved. The Increment Finance team is aware of the arbitrage opportunity and does not plan on mitigating it, as mitigation could increase the code's complexity. HashEye 18 Increment Protocol Fix Review PUBLIC

5. Ownership transfers can be front-run Status: Resolved Severity: High Difficulty: High Type: Timing Finding ID: TOB-INC-5 Target: contracts/PerpOwnable.sol Description The PerpOwnable contract provides an access control mechanism for the minting and burning of a Perpetual contract's vBase or vQuote tokens. The owner of these token contracts is set via the transferPerpOwner function, which assigns the owner's address to the perp state variable. This function is designed to be called only once, during deployment, to set the Perpetual contract as the owner of the tokens. Then, as the tokens' owner, the Perpetual contract can mint / burn tokens during liquidity provisions, trades, and liquidations. However, because the function is external, anyone can call it to set his or her own malicious address as perp , taking ownership of a contract's vBase or vQuote tokens. function transferPerpOwner ( address recipient ) external { if (recipient == address ( 0 )) revert PerpOwnable\_TransferZeroAddress(); if (perp != address ( 0 )) revert PerpOwnable\_OwnershipAlreadyClaimed(); perp = recipient; emit PerpOwnerTransferred( msg.sender , recipient); }

Figure 5.1: The transferPerpOwner function in PerpOwnable.sol#L29-L35 If the call were front-run, the Perpetual contract would not own the vBase or vQuote tokens, and any attempts to mint / burn tokens would revert. Since all user interactions require the minting or burning of tokens, no liquidity provisions, trades, or liquidations would be possible; the market would be effectively unusable. An attacker could launch such an attack upon every perpetual market deployment to cause a denial of service (DoS). Fix Analysis This issue has been resolved . The transferPerpOwner function can now be called by only the deployer of a given Perpetual contract. HashEye 19 Increment Protocol Fix Review PUBLIC

6. Funding payments are made in the wrong token Status: Resolved Severity: High Difficulty: Low Type: Data Validation Finding ID: TOB-INC-6 Target: contracts/ClearingHouse.sol Description The funding payments owed to users are made in vBase instead of UA tokens; this results in incorrect calculations of users' profit-and-loss (PnL) values, an increased risk of liquidations, and a delay in the convergence of a Perpetual contract's value with that of the underlying base asset. When the protocol executes a trade or liquidity provision, one of its first steps is settling the funding payments that are due to the calling user. To do that, it calls the \_settleUserFundingPayments function in the ClearingHouse contract (figure 6.1). The function sums the funding payments due to the user (as a trader and / or a liquidity provider) across all perpetual markets. Once the function has determined the final funding payment due to the user ( fundingPayments ), the Vault contract's settlePnL function changes the UA balance of the user. function \_settleUserFundingPayments( address account) internal { int256 fundingPayments; uint256 numMarkets =getNumMarkets(); for ( uint256 i = 0 ; i < numMarkets; ) { fundingPayments +=perpetuals[i].settleTrader(account) + perpetuals[i].settleLp(account); unchecked { ++i; } } if (fundingPayments != 0 ) { vault.settlePnL(account, fundingPayments); } }

Figure 6.1: The \_settleUserFundingPayments function in ClearingHouse.sol#L637-651 HashEye 20 Increment Protocol Fix Review PUBLIC

Both the Perpetual.settleTrader and Perpetual.settleLp functions internally call \_getFundingPayments to calculate the funding payment due to the user for a given market (figure 6.2). function \_getFundingPayments( bool isLong, int256 userCumFundingRate, int256 globalCumFundingRate, int256 vBaseAmountToSettle ) internal pure returns ( int256 upcomingFundingPayment) { [...] if (userCumFundingRate != globalCumFundingRate) { int256 upcomingFundingRate = isLong ? userCumFundingRate - globalCumFundingRate : globalCumFundingRate - userCumFundingRate; // fundingPayments = fundingRate \* vBaseAmountToSettle upcomingFundingPayment = upcomingFundingRate.wadMul(vBaseAmountToSettle); } }

Figure 6.2: The \_getFundingPayments function in Perpetual.sol#L1152-1173 However, the upcomingFundingPayment value is expressed in vBase, since it is the product of a percentage, which is unitless, and a vBase token amount, vBaseAmountToSettle . Thus, the fundingPayments value that is calculated in \_settleUserFundingPayments is also expressed in vBase. However, the settlePnL function internally updates the user's balance of UA, not vBase. As a result, the user's UA balance will be incorrect, since the user's profit or loss may be significantly higher or lower than it should be. This discrepancy is a function of the price difference between the vBase and UA tokens. The use of vBase tokens for funding payments causes three issues. First, when withdrawing UA tokens, the user may lose or gain much more than expected. Second, since the UA balance affects the user's collateral reserve total, the balance update may increase or decrease the user's risk of liquidation. Finally, since funding payments are not made

in the notional asset, the convergence between the mark and index prices may be delayed. Fix Analysis This issue has been resolved . The protocol now uses the vBase.indexPrice() function to convert vBase token amounts to UA and thus makes funding payments in UA instead of vBase. HashEye 21 Increment Protocol Fix Review PUBLIC

7. Excessive dust collection may lead to premature closures of long positions Status: Resolved Severity: Medium Difficulty: Medium Type: Data Validation Finding ID: TOB-INC-7 Target: contracts/Perpetual.sol Description The upper bound on the amount of funds considered dust by the protocol may lead to the premature closure of long positions. The protocol collects dust to encourage complete closures instead of closures that leave a position with a small balance of vBase. One place that dust collection occurs is the Perpetual contract's `_reducePositionOnMarket` function (figure 7.1).  
`function _reducePositionOnMarket ( LibPerpetual.TraderPosition memory user, bool isLong , uint256 proposedAmount , uint256 minAmount ) internal returns ( int256 baseProceeds , int256 quoteProceeds , int256 addedOpenNotional , int256 pnl ) { int256 positionSize = int256 (user.positionSize); uint256 bought ; uint256 feePer ; if (isLong) { quoteProceeds = - (proposedAmount.toInt256()); (bought, feePer) = _quoteForBase(proposedAmount, minAmount); baseProceeds = bought.toInt256(); } else { (bought, feePer) = _baseForQuote(proposedAmount, minAmount); quoteProceeds = bought.toInt256(); baseProceeds = -(proposedAmount.toInt256()); } HashEye 22 Increment Protocol Fix Review PUBLIC`

`int256 netPositionSize = baseProceeds + positionSize; if (netPositionSize > 0 && netPositionSize ≤ 1e17) { _donate(netPositionSize.toUint256()); baseProceeds -= netPositionSize; } [...]` Figure 7.1: The `_reducePositionOnMarket` function in `Perpetual.sol#L876-921` If `netPositionSize` , which represents a user's position after its reduction, is between 0 and `1e17` (1/10 of an 18-decimal token), the system will treat the position as closed and donate the dust to the insurance protocol. This will occur regardless of whether the user intended to reduce, rather than fully close, the position. (Note that `netPositionSize` is positive if the overall position is long. The dust collection mechanism used for short positions is discussed in TOB-INC-11 .) However, if `netPositionSize` is tracking a high-value token, the donation to Insurance will no longer be insignificant; 1/10 of 1 vBTC, for instance, would be worth ~USD 2,000 (at the time of writing). Thus, the donation of a user's vBTC dust (and the resultant closure of the vBTC position) could prevent the user from profiting off of a ~USD 2,000 position. Fix Analysis This issue has been resolved . The Increment Finance team updated the dust collection mechanism, limiting the amount of dust collected from a position to USD 0.10. HashEye 23 Increment Protocol Fix Review PUBLIC

8. Problematic use of primitive operations on fixed-point integers Status: Resolved Severity: Informational Difficulty: High Type: Undefined Behavior Finding ID: TOB-INC-8 Target: lib/LibMath.sol Description The protocol's use of primitive operations over fixed-point signed and unsigned integers increases the risk of overflows and undefined behavior. The Increment Protocol uses the `PRBMathSD59x18` and `PRBMathUD60x18` math libraries to perform operations over 59x18 signed integers and 60x18 unsigned integers, respectively (specifically to perform multiplication and division and to find their absolute values). These libraries aid in calculations that involve percentages or ratios or require decimal precision. When a smart contract system relies on primitive integers and fixed-point ones, it should avoid arithmetic operations that involve the use of both types. For example, using `x.wadMul(y)` to multiply two fixed-point integers will provide a different result than using `x * y` . For that reason, great care must be taken to differentiate between variables that are fixed-point and those that are not. Calculations involving fixed-point values should use the provided library operations; calculations involving both fixed-point and primitive integers should be avoided unless one type is converted to the other. However, a number of multiplication and division operations in the codebase use both primitive and fixed-point integers. These include those used to calculate the new time-weighted average prices (TWAPs) of index and market prices (figure 8.1).  
`function _updateTwap () internal { uint256 currentTime = block.timestamp ; int256 timeElapsed = (currentTime - globalPosition.timeOfLastTrade).toInt256(); /* priceCumulative1 = priceCumulative0 + price1 * timeElapsed */ // will overflow in ~3000 years // update cumulative chainlink price feed int256 latestChainlinkPrice = indexPrice(); oracleCumulativeAmount += latestChainlinkPrice * timeElapsed ; HashEye 24 Increment Protocol Fix Review PUBLIC`

`// update cumulative market price feed int256 latestMarketPrice = marketPrice().toInt256(); marketCumulativeAmount += latestMarketPrice * timeElapsed ; uint256 timeElapsedSinceBeginningOfPeriod = block.timestamp - globalPosition.timeOfLastTwapUpdate; if (timeElapsedSinceBeginningOfPeriod ≥ twapFrequency) { /* TWAP = (priceCumulative1 - priceCumulative0) / timeElapsed */ // calculate chainlink twap oracleTwap = ((oracleCumulativeAmount - oracleCumulativeAmountAtBeginningOfPeriod) / timeElapsedSinceBeginningOfPeriod.toInt256()).toInt128() ; // calculate market twap marketTwap = ((marketCumulativeAmount - marketCumulativeAmountAtBeginningOfPeriod) /`

```

timeElapsedSinceBeginningOfPeriod.toInt256()).toInt256() ; // reset cumulative amount and timestamp
oracleCumulativeAmountAtBeginningOfPeriod = oracleCumulativeAmount;
marketCumulativeAmountAtBeginningOfPeriod = marketCumulativeAmount;
globalPosition.timeOfLastTwapUpdate = block.timestamp .toUint64(); emit TwapUpdated(oracleTwap,
marketTwap); } } Figure 8.1: The _updateTwap function in Perpetual.sol#L1071-1110 Similarly, the
_getUnrealizedPnL function in the Perpetual contract calculates the tradingFees value by
multiplying a primitive and a fixed-point integer (figure 8.2). function
_getUnrealizedPnL(LibPerpetual.TraderPosition memory trader) internal view returns ( int256 ) {
int256 oraclePrice = indexPrice(); int256 vQuoteVirtualProceeds = int256
(trader.positionSize).wadMul(oraclePrice); int256 tradingFees = (vQuoteVirtualProceeds.abs() *
market.out_fee().toInt256()) / CURVE_TRADING_FEE_PRECISION; // @dev: take upper bound on the
trading fees // in the case of a LONG, trader.openNotional is negative but vQuoteVirtualProceeds is
positive // in the case of a SHORT, trader.openNotional is positive while vQuoteVirtualProceeds is
negative return int256 (trader.openNotional) + vQuoteVirtualProceeds - tradingFees; } Figure 8.2:
The _getUnrealizedPnL function in Perpetual.sol#L1175-1183 HashEye 25 Increment Protocol Fix Review
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```

These calculations can lead to unexpected overflows or cause the system to enter an undefined state. Note that there are other such calculations in the codebase that are not documented in this finding. Fix Analysis This issue has been resolved . The Increment Finance team updated the inline documentation to explain the use of primitive division and multiplication involving both fixed-point and non-fixed-point integers. HashEye 26 Increment Protocol Fix Review PUBLIC

9. Liquidations are vulnerable to sandwich attacks Status: Resolved Severity: Medium Difficulty: High Type: Timing Finding ID: TOB-INC-9 Target: contracts/ClearingHouse.sol Description Token swaps that are performed to liquidate a position use a hard-coded zero as the “minimum-amount-out” value, making them vulnerable to sandwich attacks. The minimum-amount-out value indicates the minimum amount of tokens that a user will receive from a swap. The value is meant to provide protection against pool illiquidity and sandwich attacks. Senders of position and liquidity provision updates are allowed to specify a minimum amount out. However, the minimum-amount-out value used in liquidations of both traders’ and liquidity providers’ positions is hard-coded to zero. Figures 9.1 and 9.2 show the functions that perform these liquidations ( \_liquidateTrader and \_liquidateLp , respectively). function \_liquidateTrader( uint256 idx, address liquidatee, uint256 proposedAmount ) internal returns ( int256 pnL, int256 positiveOpenNotional ) { (positiveOpenNotional) = int256 (\_getTraderPosition(idx, liquidatee).openNotional).abs(); LibPerpetual.Side closeDirection = \_getTraderPosition(idx, liquidatee).positionSize ≥ 0 ? LibPerpetual.Side.Short : LibPerpetual.Side.Long; // (liquidatee, proposedAmount) ( , , pnL, ) = perpetuals[idx].changePosition(liquidatee, proposedAmount, 0 , closeDirection, true ); // traders are allowed to reduce their positions partially, but liquidators have to close positions in full if (perpetuals[idx].isTraderPositionOpen(liquidatee)) revert ClearingHouse\_LiquidateInsufficientProposedAmount(); return (pnL, positiveOpenNotional); HashEye 27 Increment Protocol Fix Review PUBLIC

```

} Figure 9.1: The _liquidateTrader function in ClearingHouse.sol#L522-541 function _liquidateLp (
uint256 idx , address liquidatee , uint256 proposedAmount ) internal returns ( int256 pnL , int256
positiveOpenNotional ) { positiveOpenNotional = _getLpOpenNotional(idx, liquidatee).abs(); // close
lp (pnL, , ) = perpetuals[idx].removeLiquidity( liquidatee, _getLpLiquidity(idx, liquidatee), [
uint256 ( 0 ), uint256 ( 0 )] , proposedAmount, 0 , true ); _distributeLpRewards(idx, liquidatee);
return (pnL, positiveOpenNotional); } Figure 9.2: The _liquidateLp function in
ClearingHouse.sol#L543-562 Without the ability to set a minimum amount out, liquidators are not
guaranteed to receive any tokens from the pool during a swap. If a liquidator does not receive the
correct amount of tokens, he or she will be unable to close the position, and the transaction will
revert; the revert will also prolong the Increment Protocol’s exposure to debt. Moreover,
liquidators will be discouraged from participating in liquidations if they know that they may be
subject to sandwich attacks and may lose money in the process. Fix Analysis This issue has been
resolved . Liquidators can now specify a minimum-amount-out value when liquidating a position.
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10. Accuracy of market and oracle TWAPs is tied to the frequency of user interactions Status: Resolved Severity: Informational Difficulty: High Type: Data Validation Finding ID: TOB-INC-10 Target: contracts/ClearingHouse.sol Description The oracle and market TWAPs can be updated only during traders’ and liquidity providers’ interactions with the protocol; a downtick in user interactions will result in less accurate TWAPs that are more susceptible to manipulation. The accuracy of a TWAP is related to the number of data points available for the average price calculation. The less often prices are logged, the less robust the TWAP becomes. In the case of the Increment Protocol, a TWAP can be updated with each block that contains a trader or liquidity

provider interaction. However, during a market slump (i.e., a time of reduced network traffic), there will be fewer user interactions and thus fewer price updates. TWAP updates are performed by the `Perpetual._updateTwap` function, which is called by the internal `Perpetual._updateGlobalState` function. Other protocols, though, take a different approach to keeping markets up to date. The Compound Protocol, for example, has an `accrueInterest` function that is called upon every user interaction but is also a standalone public function that anyone can call. Fix Analysis This issue has been resolved . The Increment Finance team created a public `updateGlobalState` function that anyone can call to update a perpetual market. HashEye 29 Increment Protocol Fix Review PUBLIC

11. Liquidations of short positions may fail because of insufficient dust collection Status: Resolved Severity: Low Difficulty: High Type: Data Validation Finding ID: TOB-INC-11 Target: `contracts/Perpetual.sol` Description Because the protocol does not collect the dust associated with short positions, attempts to fully close and then liquidate those positions will fail. One of the key requirements for the successful liquidation of a position is the closure of the entire position; in other words, by the end of the transaction, the debt and assets of the trader or liquidity provider must be zero. The process of closing a long position is a straightforward one, since identifying the correct `proposedAmount` value (the amount of tokens to be swapped) is trivial. Finding the correct `proposedAmount` for a short position, however, is more complex . If the `proposedAmount` estimate is incorrect, the transaction will result in leftover dust, which the protocol will attempt to collect (figure 11.1). function `_reducePositionOnMarket` ( `LibPerpetual.TraderPosition` memory user, bool isLong , uint256 proposedAmount , uint256 minAmount ) internal returns ( int256 baseProceeds , int256 quoteProceeds , int256 addedOpenNotional , int256 pnl ) { int256 positionSize = int256 (user.positionSize); uint256 bought ; uint256 feePer ; if (isLong) { HashEye 30 Increment Protocol Fix Review PUBLIC

```
quoteProceeds = -(proposedAmount.toInt256()); (bought, feePer) = _quoteForBase(proposedAmount, minAmount); baseProceeds = bought.toInt256(); } else { (bought, feePer) = _baseForQuote(proposedAmount, minAmount); quoteProceeds = bought.toInt256(); baseProceeds = -(proposedAmount.toInt256()); } int256 netPositionSize = baseProceeds + positionSize; if (netPositionSize > 0 && netPositionSize ≤ 1e17) { _donate(netPositionSize.toUint256()); baseProceeds -= netPositionSize; } [...] } Figure 11.1: The _reducePositionOnMarket function in Perpetual.sol#L876-921 The protocol will collect leftover dust only if netPositionSize is greater than zero, which is possible only if the position that is being closed is a long one. If a short position is left with any dust, it will not be collected, since netPositionSize will be less than zero. This inconsistency has a direct impact on the success of liquidations, because a position must be completely closed in order for a liquidation to occur; no dust can be left over. When liquidating the position of a liquidity provider, the Perpetual contract's _settleLpPosition function checks whether netBasePosition is less than zero (as shown in figure 11.2). If it is, the liquidation will fail. Because the protocol does not collect dust from short positions, the netBasePosition value of such a position may be less than zero. The ClearingHouse._liquidateTrader function, called to liquidate traders' positions, enforces a similar requirement regarding total closures. function _settleLpPosition ( LibPerpetual.TraderPosition memory positionToClose, uint256 proposedAmount , uint256 minAmount , bool isLiquidation ) internal returns ( int256 pnl , int256 quoteProceeds ) { int256 baseProceeds ; (baseProceeds, quoteProceeds, , pnl) = _reducePositionOnMarket( positionToClose, !(positionToClose.positionSize > 0 ) , proposedAmount, minAmount ); [...] int256 netBasePosition = positionToClose.positionSize + baseProceeds; if (netBasePosition < 0 ) revert Perpetual_LPOpenPosition(); HashEye 31 Increment Protocol Fix Review PUBLIC
```

```
if (netBasePosition > 0 && netBasePosition ≤ 1e17) _donate(netBasePosition.toUint256()); } Figure 11.2: The _settleLpPosition function in Perpetual.sol#L1005-1030 If the liquidation of a position fails, any additional attempts at liquidation will lower the liquidator's profit margin, which might dissuade the liquidator from trying again. Additionally, failed liquidations prolong the protocol's exposure to debt. Exploit Scenario Alice, a liquidator, notices that a short position is no longer valid and decides to liquidate it. However, Alice sets an incorrect proposedAmount value, so the position is left with some dust. Because the protocol does not collect the dust of short positions, the liquidation fails. As a result, Alice loses money—and the loss dissuades her from attempting to liquidate any other undercollateralized positions. Fix Analysis This issue has been resolved . The Increment Finance team updated the liquidation flows for both short and long positions to ensure that liquidations of short positions will also succeed. HashEye 32 Increment Protocol Fix Review PUBLIC
```

12. Project dependencies contain vulnerabilities Status: Resolved Severity: Low Difficulty: High Type: Patching Finding ID: TOB-INC-12 Target: `increment-protocol` Description Although dependency scans did not identify a direct threat to the project under review, yarn audit identified dependencies with known vulnerabilities. Due to the sensitivity of the deployment code and its

environment, it is important to ensure that dependencies are not malicious. Problems with dependencies in the JavaScript community could have a significant effect on the repository under review. The output below details the high-severity vulnerabilities: CVE ID Description Dependency  
CVE-2021-23358 Arbitrary code injection vulnerability underscore CVE-2021-43138 Prototype pollution  
async CVE-2021-23337 Command injection vulnerability lodash CVE-2022-0235 " node-fetch is  
vulnerable to exposure of sensitive information to an unauthorized actor" node-fetch  
Figure 12.1: Advisories affecting increment-protocol dependencies  
Fix Analysis This issue has been resolved .  
The Increment Finance team updated most of the dependencies to their latest versions and  
implemented an automated dependency-monitoring solution. HashEye 33 Increment Protocol Fix Review  
PUBLIC

13. Risks associated with oracle outages Status: Unresolved Severity: Informational Difficulty:  
High Type: Configuration Finding ID: TOB-INC-13 Target: increment-protocol Description Under  
extreme market conditions, the Chainlink oracle may cease to work as expected, causing unexpected  
behavior in the Increment Protocol. Such oracle issues have occurred in the past. For example,  
during the LUNA market crash, the Venus protocol was exploited because Chainlink stopped providing  
up-to-date prices. The interruption occurred because the price of LUNA dropped below the minimum  
price ( minAnswer ) allowed by the LUNA / USD price feed on the BNB chain. As a result, all oracle  
updates reverted. Chainlink's automatic circuit breakers , which pause price feeds during extreme  
market conditions, could pose similar problems. Note that these kinds of events cannot be tracked  
on-chain. If a price feed is paused, updatedAt will still be greater than zero, and answeredInRound  
will still be equal to roundID . Thus, the Increment Finance team should implement an off-chain  
monitoring solution to detect any anomalous behavior exhibited by Chainlink oracles. The monitoring  
solution should check for the following conditions and issue alerts if they occur, as they may be  
indicative of abnormal market events: • An asset price that is approaching the minAnswer or  
maxAnswer value • The suspension of a price feed by an automatic circuit breaker • Any large  
deviations in the price of an asset  
Fix Analysis This issue remains unresolved. However, the  
Increment Finance team indicated that it will be implementing an off-chain monitoring solution in  
the future. HashEye 34 Increment Protocol Fix Review PUBLIC

A. Status Categories The following table describes the statuses used to indicate whether an issue  
has been sufficiently addressed. Fix Status Status Description Undetermined The status of the issue  
was not determined during this engagement. Unresolved The issue persists and has not been resolved.  
Partially Resolved The issue persists but has been partially resolved. Resolved The issue has been  
sufficiently resolved. HashEye 35 Increment Protocol Fix Review PUBLIC

B. Vulnerability Categories The following tables describe the vulnerability categories, severity  
levels, and difficulty levels used in this document. Vulnerability Categories Category Description  
Access Controls Insufficient authorization or assessment of rights Auditing and Logging  
Insufficient auditing of actions or logging of problems Authentication Improper identification of  
users Configuration Misconfigured servers, devices, or software components Cryptography A breach of  
system confidentiality or integrity Data Exposure Exposure of sensitive information Data Validation  
Improper reliance on the structure or values of data Denial of Service A system failure with an  
availability impact Error Reporting Insecure or insufficient reporting of error conditions Patching  
Use of an outdated software package or library Session Management Improper identification of  
authenticated users Testing Insufficient test methodology or test coverage Timing Race conditions  
or other order-of-operations flaws Undefined Behavior Undefined behavior triggered within the  
system HashEye 36 Increment Protocol Fix Review PUBLIC

Severity Levels Severity Description Informational The issue does not pose an immediate risk but is  
relevant to security best practices. Undetermined The extent of the risk was not determined during  
this engagement. Low The risk is small or is not one the client has indicated is important. Medium  
User information is at risk; exploitation could pose reputational, legal, or moderate financial  
risks. High The flaw could affect numerous users and have serious reputational, legal, or financial  
implications. Difficulty Levels Difficulty Description Undetermined The difficulty of exploitation  
was not determined during this engagement. Low The flaw is well known; public tools for its  
exploitation exist or can be scripted. Medium An attacker must write an exploit or will need in-  
depth knowledge of the system. High An attacker must have privileged access to the system, may need  
to know complex technical details, or must discover other weaknesses to exploit this issue. HashEye  
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