

# Security Engineering (8)

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Slides: KEATS (also homework is there)

# Last Week's Survey

## About Bitcoins:

*not regulated by any  
government*

*bitcoins are  
anonymous*

*Should one mine for Bitcoins?*

*untraceable spending  
of money?*

*fixed amount of bitcoins in  
circulation (no inflation)*

*bitcoins  
cannot get  
lost, all  
transactions  
are recorded*

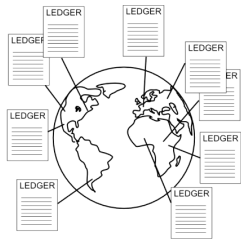
# Bitcoins from 10,000m

- a crypto “currency” by Satoshi Nakamoto (likely a pen name)
- a digital resource designed to be scarce (max 21 Mio bitcoins—deflationary currency)
- mined by solving special puzzles involving hashes
- transaction history (ledger/blockchain) is P2P distributed (12 GB)
- three “mining pools” produce currently more than 50% of bitcoins
- can be stolen and also lost
- anonymous?



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- can be stolen and also lost
- anonymous?
- surely a scam/ponzi scheme!



# Bitcoins

- you create a public-private key pair
- you have a 'wallet' which can be
  - electronic (on your computer, passwords)
  - cloud-based (passwords)
  - paper-based

and contains only the public-private key

- Bitcoins can be stolen or lost
- Mt. Gox: hacked  $\Rightarrow$  insolvent
- no form of dispute resolution  
(against current consumer laws)

# Underlying Ideas

It establishing trust in a completely untrusted environment

- public-private key encryption
- digital signatures
- cryptographic hashing (SHA-256)

If Alice sends you:  $msg, \{msg\}_{K_{Alice}^{priv}}$  ...?

# Lets Start with “Infocoins”

$\{I, Alice, am\ giving\ Bob\ one\ infocoin.\}$   $K_{Alice}^{priv}$

- no-one else could have created that message
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- Q: What is money?  
A: Well a string like above (or later messages like that)



# Double Spend

$\{I, \text{ Alice, am giving Bob one infocoin.}\}_{K_{\text{Alice}}^{\text{priv}}}$

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$\{I, \text{ Alice, am giving Bob infocoin \#1234567.}\}_{K_{\text{Alice}}^{\text{priv}}}$

- but then we need a trusted source of serial numbers (e.g. a bank)

# No Banks Please

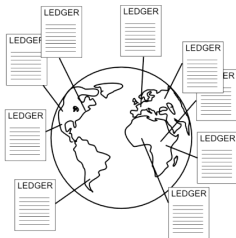
With banks we could implement:

- Bob asks the bank whether the infocoin with that serial number belongs to Alice and
- Alice hasn't already spent this infocoin.
- If yes, then Bob tells the bank he accepts the infocoin.
- The bank updates the records (ledger) to show that the infocoin with that serial number is now in Bob's possession and no longer belongs to Alice.

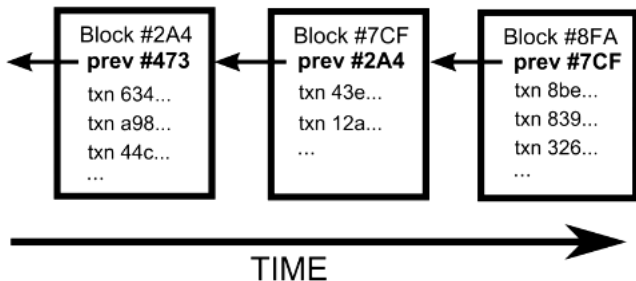
# Blockchain (Public Ledger)

The solution for double spend:

- make everybody the bank, everybody has the entire transaction history — will be called **blockchain**
- Bob checks whether the infocoin belongs to Alice and then broadcasts the message to everybody else



# Blockchain (Public Ledger)



- each block is hashed and contains a reference to the earlier block; “validates” potentially more than one transaction



# Double Spend Again

- I, Alice, am giving Bob one infocoin, with serial number 1234567.
- I, Alice, am giving Charlie one infocoin with number 1234567.

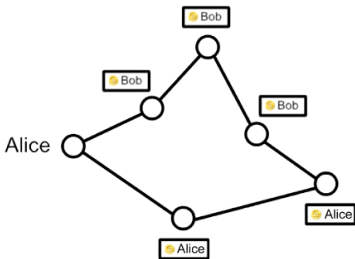
How should other people update their blockchain (public register)?



# Double Spend Again

- I, Alice, am giving Bob one infocoin, with serial number 1234567.
- I, Alice, am giving **Alice** one infocoin with number 1234567.

How should other people update their blockchain (public register)?



# Creating Agreement

Once **enough** people have broadcast that message, everyone updates their block chain to show that infocoin 1234567 now belongs to Bob, and the transaction is accepted.

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But what if Alice sets up a large number of separate identities, let's say a billion, on the Infocoin network. When Bob asks the network to validate the transaction, Alice's puppet identities say "Yes his transaction is validated", while actually the rest network says Alice's transaction is OK?

# !! Proof-of-Work !!

The idea is counterintuitive and involves a combination of two ideas:

- to (artificially) make it computationally costly for network users to validate transactions, and
- to reward them for trying to help validate transactions

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- to reward them for trying to help validate transactions

this is called mining: whoever validates a transaction will be awarded with 50 bitcoins — this halves every 210,000 transactions or roughly every 4 years (currently 25 BC); no new bitcoins after 2140 – then only transaction fees

# Solving Puzzles

Given a string, say "Hello, world!", what is the **salt** so the hash starts with a long run of zeros?

```
h("Hello, world!0") =
```

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1312af178c253f84028d480a6adc1e25e81caa44c749ec81976192e2ec934c64
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```

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...  
h("Hello, world!4250") =  
0000c3af42fc31103f1fdc0151fa747ff87349a4714df7cc52ea464e12dcd4e9
```

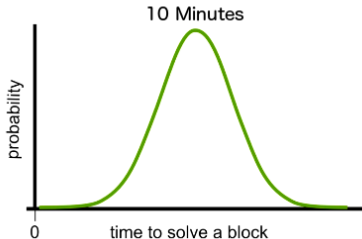


# Hardness

If we want the output hash value to begin with 10 zeroes, say, then we will need, on average, to try  $16^{10} \approx 10^{12}$  different salts before we find a suitable nonce.

Hardness can be controlled by setting a **target** (maximum number).

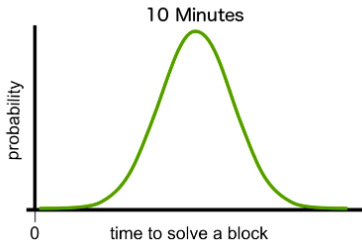
Probability Distribution of Block Solving Time



# How to Adjust the Target?

- every 2016 blocks the hardness is adjusted (app 2 weeks)

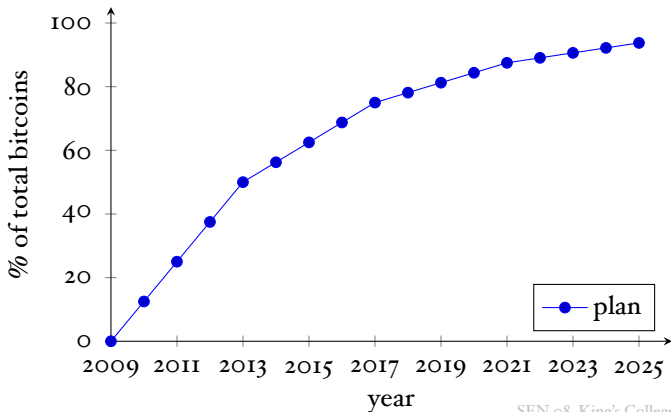
Probability Distribution of Block Solving Time



$$\text{New Hardness} \stackrel{\text{def}}{=} \text{Old Hardness} * \frac{\text{Actual time for the last 2016 blocks}}{2016}$$

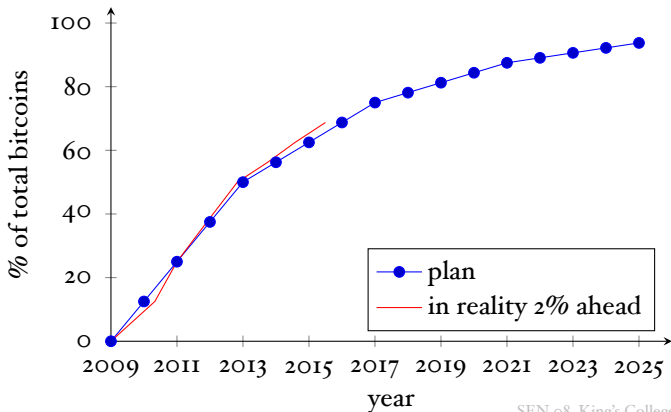
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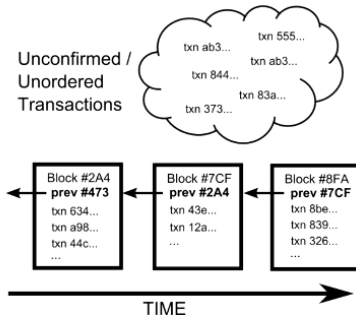
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# Order of Transactions

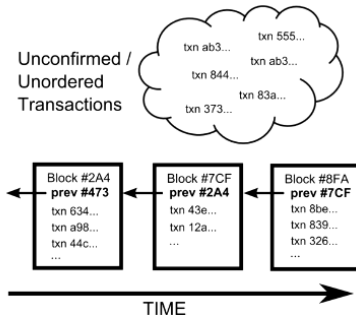
If we don't have such an ordering at any given moment then it may not be clear who owns which Bitcoins.



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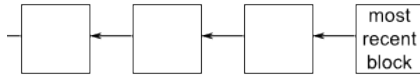
# Forks

Typically the blockchain will look as follows

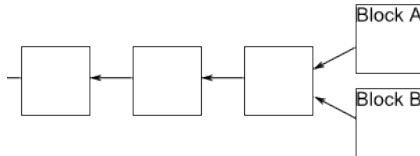


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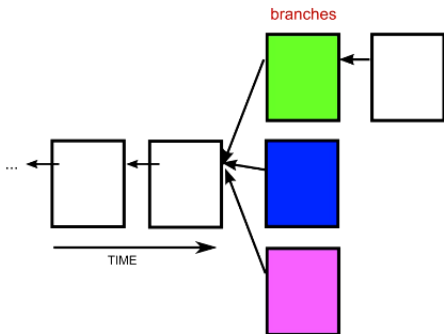
But every so often there is a fork



...bugger this is exactly what we are trying to avoid



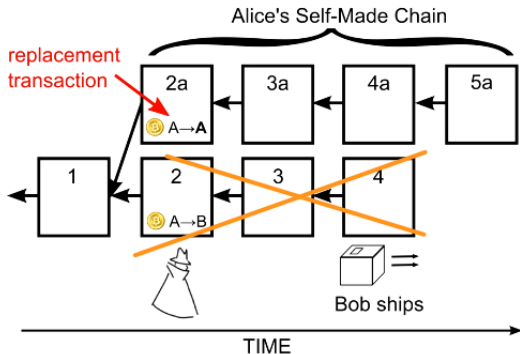
## The tie is broken if another block is solved



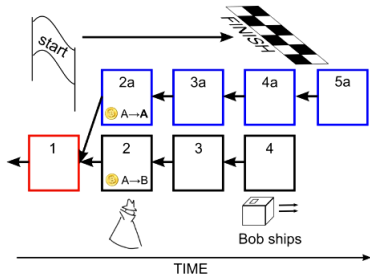
The rule is: if a fork occurs, people on the network keep track of all forks. But at any given time, miners only work to extend whichever fork is longest in their copy of the block chain.

# Double Spending Again

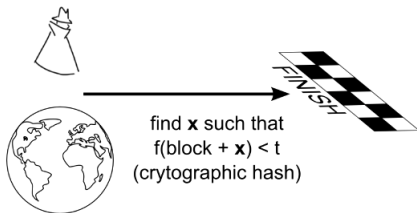
So if Alice wants to fake it, she needs to produce a longer chain:



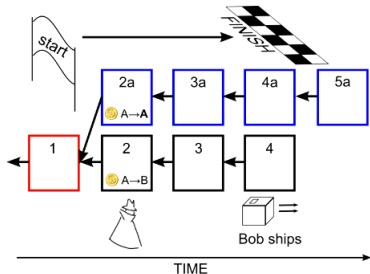
# Racing Against the World



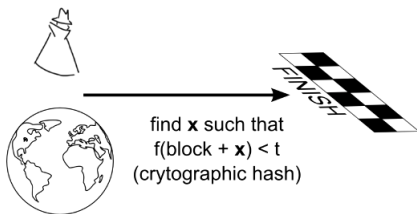
Transaction Order protected by Race



# Racing Against the World



Transaction Order protected by Race



A transaction is “confirmed” if:

(1) it is part of a block in the longest fork, and (2) at least 5 blocks follow it in the longest fork. In this case we say that the transaction has “6 confirmations”.

(might take 1h+...but for creditcards you have 6 months chargeback)

# Mining Pools

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Many people join groups called mining pools that collectively work to solve blocks, and distribute rewards based on work contributed. These act somewhat like lottery pools among co-workers, except that some of these pools are quite large, and comprise more than 20% of all the computers in the network.

BTCC, the largest mining pool, has limited its members to not solve more than 6 blocks in a row. <https://blockchain.info/pools>

# Bitcoins for Real

- you need a public-private key (the hash of the public key to determines your bitcoin address)
- if you want to receive bitcoins, you publicise this address
- there are  $2^{160}$  possibilities (no check for duplicates)

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- transactions contain “payment scripts” (non-Turing-complete scripting language)

simplest script: pay-to-public-key



# Multi-Signature Addresses

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can specify: requires  $M$  out of  $N$  signatures

for example

1-of-2: me and my wife, or

2-of-2 in banking/companies

# Dispute Mediation

- say, client and (online) merchant do not trust each other

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- say, client and (online) merchant do not trust each other
- 2-of-3: mutually trusted escrow service
  - 1 client sends money to 2-of-3 transaction
  - 2 merchant sends out goods
  - 3 if goods are OK, client sends signed transaction to merchant, merchant can sign and receive the money (publish in blockchain)
  - 4 if goods are defective, merchant sends signed transaction to client, client can sign and receive the money back
  - 5 if client and merchant disagree, then they ask escrow service who signs a transaction and sends it to “winning” party

# A Transaction Msg

```
1 {"hash": "7c4025...",
2  "ver": 1,
3  "vin_sz": 1,
4  "vout_sz": 1,
5  "lock_time": 0,
6  "size": 224,
7  "in": [
8    {"prev_out":
9      {"hash": "2007ae...",
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12 "out": [
13   {"value": "0.31900000",
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# A Transaction Msg



the hash of the msg that follows;  
kind of serial number

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# A Transaction Msg


the transaction has one input and one output (could be more)



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# A Transaction Msg

the hash of the incoming transaction (incoming serial number)

```
1 {"hash": "7c4025...",
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# A Transaction Msg


use the oth output of the incoming transaction

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# A Transaction Msg

the public key and signature of the sender

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# A Transaction Msg

use  $x$  amount of the incoming money


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1 {"hash": "7c4025...",
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# A Transaction Msg

public key of the receiver

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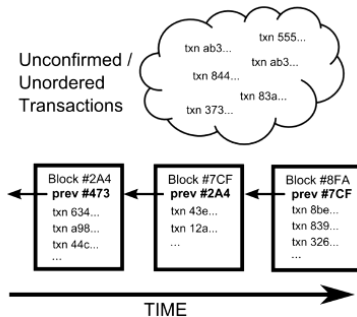
# A Transaction Msg

you do not need a central authority to issue serial numbers

there are no “coins”, just a long series of transactions

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# A Block in the Blockchain



- each block is hashed and contains a reference to the earlier block
- contains the “salt” and address of whoever solved the puzzle

# Transaction History

you can follow back the transaction history until you reach either

- the genesis block (a transaction without input of 50 bitcoins), or
- a coinbase transaction (this is the reward of the miner who validated a block of transactions in the blockchain)

# Lost Bitcoins?

- somebody needs to be able to generate a key-pair for the signature (for this you need the private key)
- somebody spends your bitcoins fraudulently (you cannot charge them back)... bad luck
- you can send bitcoins to a “non-existing” address (Mt. Gox)

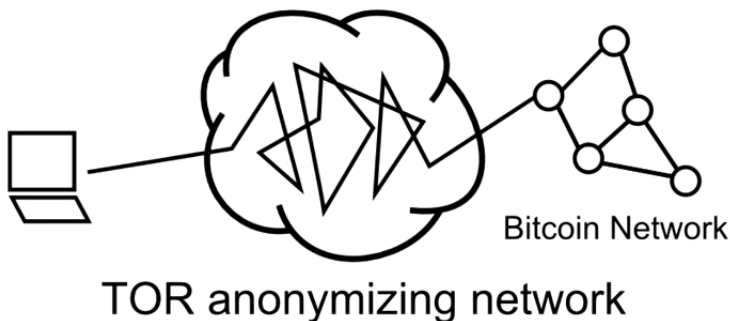
# Good Points

An attacker can't:

- reverse other people's transactions
- change the number of coins generated per block
- create coins out of thin air
- send coins that never belonged to an attacker
- you cannot meddle with the “history”

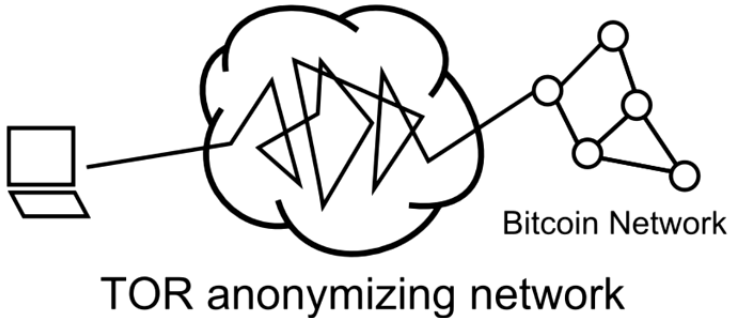
The system can be scaled to all world transactions.

# But I did not Inhale...



ledger is public “forever”; everybody can inspect how money was transferred from which address to which address; maybe not ideal for money laundering

# But I did not Inhale...



You should use a new PKI-pair for **every** transaction; but few do (merchants). A design flaw(?): combining transactions.

# Anonymity

“How anonymous is Bitcoin? Many people claim that Bitcoin can be used anonymously. This claim has led to the formation of marketplaces such as Silk Road (and various successors), which specialize in illegal goods. However, the claim that Bitcoin is anonymous is a myth. The block chain is public, meaning that it's possible for anyone to see every Bitcoin transaction ever. Although Bitcoin addresses aren't immediately associated to real-world identities, computer scientists have done a great deal of work figuring out how to de-anonymize 'anonymous' social networks. The block chain is a marvellous target for these techniques.”



# Other Crypto-Currencies

## Coloured Coins:

- record a 1 bitcoin transfer, say, and give it a “colour”
- the transaction stands for a share in “Foo Inc, UK”.
- only makes sense if the share is much more valuable than just 1 Bc.

# Bitcoin vs Gov

Purported absence of potential government interference?

# Bitcoin vs Gov

Purported absence of potential government interference? Far from it:

- government could compel “major players” to blacklist bitcoins (exchanges)
- coerce developer community (e.g. Lavabit)
- put pressure on mining pools, or be big a miner itself



# Take Home Points

- Don't gamble! I am not a first mover in such things.
- Cool idea, but I am sure there will be a Bitcoin 2.0.
- It still depends on a lot of old-fashioned security (e.g. keeping private-keys secret)
- Having now the knowledge how it works, go back and listen to what people/media make of it.

Next 2 weeks by Jose Such