

Hours of Horus: Keyless Cryptocurrency Wallets

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Abstract. We put forth a *keyless wallet*, a cryptocurrency wallet in which money can be spent using a password alone, and no private keys are required. It requires a smart contract blockchain. We propose two schemes. In the first, the user sets a short wallet password and can spend their money at a prespecified maturity date using the password alone. Using this as a stepping stone, we propose a second scheme, in which the user uses an OTP authenticator seed to generate a long series of time-based OTP passwords for the foreseeable future. These are encrypted and organized in a Merkle tree whose root is stored in a smart contract. The user can spend funds at any time by simply visually providing the current OTP password from an air gapped device. These OTPs can be relatively short: Just 6 alphanumeric characters suffice. Our OTP scheme can work in proof-of-stake as well as static and variable difficulty proof-of-work blockchains. The low-entropy in the passwords and OTPs in our scheme is protected from brute force attempts by requiring that an adversary accompany any brute force attempt by a transaction on the chain. This quickly incurs enormous economic costs for the adversary. Thus, we develop the first decentralized *rate limiting* scheme. We use *Witness Encryption* (WE) to construct a timelock encryption scheme in which passwords are encrypted from past into future blocks by leveraging the NP-language expressing proof-of-work or proof-of-stake performed as the witness. Witness Encryption is a currently impractical cryptographic primitive, but our scheme may become practical as these primitives are further developed.

1 Introduction

The management of cryptocurrency [49] wallet private keys is a hassle. Can we get rid of them and replace them with a simple short password or a rotating 6-digit one-time password (OTP) [47,48]? Users are more familiar with this model, but this seems, at first sight, impossible to achieve: The blockchain is public infrastructure, and anyone has access to the public

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keys and smart contracts [14, 52] governing the conditions under which one can spend. Any such short password will be easily broken by an offline brute force attack [51].

Perhaps unexpectedly, it *is* possible to build brute force resilient wallets by leveraging the blockchain infrastructure itself. We build the first *keyless cryptocurrency wallets*. We propose two constructions. Our first construction is a password-based wallet. It operates as follows. Initially, Alice inputs a short (perhaps 6 alphanumeric characters long) secret password into the newly installed wallet software, as well as a *maturity date*. The wallet software creates a smart contract wallet containing the encrypted password on the blockchain and outputs a wallet address to which money can be deposited at any time. The money is unspendable prior to the maturity date. Now that the wallet has been funded, Alice decides to spend her money. At any time prior to the maturity date, Alice can open up a newly installed wallet instance and input the public wallet address and the secret password. The newly installed wallet does not hold any secret information such as private keys. Alice also enters the target address to which she wishes the money to go. The wallet broadcasts two transactions on the blockchain: A *commit* transaction immediately, and a *reveal* transaction later, on the maturity date. The money is securely transferred to the target address. The wallet becomes unusable after the maturity date. This construction is a stepping stone for the next.

Our second and final construction, the *Hours of Horus*, is an OTP-based wallet. It operates as follows. Alice initially uses her mobile wallet to generate a high entropy OTP seed. This seed is used to generate a large amount of time-based OTPs (with, say, hourly resolution) which are encrypted and collected into a Merkle tree. The wallet creates a smart contract containing the Merkle tree root on the blockchain and outputs a wallet address to which money can be deposited at any time. The internal nodes of the Merkle tree are posted on a public high availability location such as IPFS [10] and can also be kept by Alice in any untrusted device, if desired for availability. Alice then disconnects the mobile wallet and keeps it completely air gapped and offline. At any time, Alice can use the offline device to generate a time-based OTP. Without plugging in the offline device via USB or connecting it to the Internet, Alice visually copies the short (perhaps 6 alphanumeric characters long) OTP that appears on the device's screen into her online computer. The wallet on her online computer can then be used to input a target address and amount to be transferred. Contrary to our previous construction, this second construction allows the user to spend money *at any time* (for the price of

maintaining the offline OTP device). As the OTPs are very short, this wallet is highly usable. After the initial OTP seed generation, the seed is kept in an air gapped device, ensuring any bugs in the hardware or software cannot be abused to steal it.

Critical to the security of both constructions is ensuring that no adversary can brute force the short password or OTPs. Towards that goal, we devise a new cryptographic mechanism to secure cryptocurrency wallet passwords from offline brute forcing attempts. Any adversary who wishes to brute force these passwords *must* do so through the chain itself and record the attempt in a transaction. As such, these attempts are governed by the limitations of the chain: Each transaction costs gas to perform. This gives rise to the first *decentralized rate limiting* mechanism. Through appropriate cryptoeconomic parametrization, we ensure that the adversary will, in expectation, and with any desired probability, lose much more money than they will win out of brute forcing attempts. The parametrization dictates the length of the password based on current transaction gas costs and the capital to be protected.

To achieve this property, we leverage the fact that the network is performing proof-of-work [24] (or proof-of-stake [38]) in a predictable rate in expectation [13]. We use *Witness Encryption* (WE) [30] to encrypt the password in such a way that it can only be decrypted using the *future* proof-of-work/stake that will be performed by the network. As such, the encryption is a *Timelock Encryption* [50] in which the miners function in tandem [40] to decrypt the submitted password. This decryption is a by-product of the proof-of-work/stake they are performing anyway. The miners do not need to know that the passwords have been timelock encrypted. The security of timelock encryption ensures that the passwords will not be decryptable prior to the chain progressing a certain number of blocks. Our security argument stands upon five pillars:

1. a secure *extractable* Witness Encryption scheme,
2. a secure underlying blockchain (with *Common Prefix*),
3. a *preimage/collision* resistant hash function;
4. a secure *pseudorandom* OTP scheme, and
5. a rational adversary.

Our constructions could, in principle, be deployed to any smart-contract-enabled proof-of-work/stake chain such as Ethereum. In particular, we do not require any modifications to the Ethereum consensus mechanism or smart contract virtual machine. The best known instantiation of the Witness Encryption primitive, which the Timelock Encryption instance

makes use of, requires the use of *multilinear maps*. Multilinear maps are (approximately) constructible using ideal lattices. Unfortunately, this construction currently remains impractical. Until such constructions are built, our scheme is of theoretical interest.

Our contributions. The contributions of this paper are summarized as follows:

- We introduce a timelock-based *keyless* cryptocurrency wallet in which funds are spent by just using a short password at a prespecified *maturity date*.
- We introduce the first timelock-based high usability *OTP* wallet, with OTP length of just 6 alphanumeric characters. The funds can be spent at any time just by providing the OTP password from an air gapped device.
- In the process of building these wallets, we put forth the first *decentralized rate limiting* scheme. The scheme protects the user from brute force attacks by an adversary, by requiring all attempts to be recorded on the chain.

Secondary contributions include the first instantiation of timelock encryption applied to proof-of-stake blockchains and variable difficulty proof-of-work blockchains. Lastly, our security argument uses a hybrid approach which combines a high-entropy cryptographic parameter — in which classical cryptographic security is ensured with overwhelming probability— with a low-entropy cryptoeconomic parameter whose role is to ensure the attack is uneconomical for a rational adversary. This novel proof methodology may be of independent interest in analyzing blockchain protocols, which often compose cryptography and economics.

Our security assumptions pertain to pseudorandomness, hash security, and lattice-based cryptography. Therefore our wallets are also quantum-resistant for the case of proof-of-work instantiation. For the case of proof-of-stake, if the underlying blockchain is quantum-resistant (by leveraging quantum-resistant signature schemes and VRFs), then so are our wallets.

Related work. Witness Encryption was introduced by Garg et al. [30] (based on the EXACT COVER problem). In that work, they propose a construction which makes use of lattice-based approximate multilinear maps proposed in previous work [29]. The lattice-based approach has been improved [39] and its implementation details further explored [2]. A series of attacks on this construction have been discovered [1, 15, 16, 18, 20, 33]. A follow-up lattice-based approach [31] was put forth later, but also attacked [19]. An integer-based implementation of multilinear

maps has also been proposed [21, 22] and attacked [15, 17, 46]. Current advancements [41] seem, so far, immune to such attacks. All in all, the state of the art consists of constructions that have poorly understood security and sometimes exotic cryptographic assumptions.

Timelock Encryption was introduced by Rivest et al. [50]. A Timelock Encryption making use of Witness Encryption (based on the SUBSET SUM problem) and blockchain proof-of-work was proposed by Liu et al. [40]. This is the first instance of timelock encryption in which a computationally limited decryptor can rely on the blockchain miners for the decryption of secrets. We make heavy use of their scheme in this work. Applications of this scheme to cryptocurrencies have been previously discussed by Miller [45].

A taxonomy of cryptocurrency wallets and their security is put forth by Karantias [34]. The security of offline wallets is explored by Karakostas et al. [3]. The use of OTP [47, 48] as a mechanism for cryptocurrency wallet protection has been explored in SmartOTP [32]. The SmartOTP work was a great inspiration for the present paper. Contrary to our construction, their wallet uses OTPs as a second factor (in addition to private keys) and requires large-length OTP strings which make it less usable, but their implementation is quite practical and even has a Solidity implementation. Password-based cryptocurrency wallets have previously appeared as *brain wallets*, but brute force attacks against them have proven catastrophic [51].

2 Preliminaries

Blocks and chains. Recall that the proof-of-work blockchain consists of block headers $B = \langle \text{ctr}, \text{tx}, s \rangle$ each of which contains a proof-of-work *nonce* ctr , a short Merkle Tree [42] root of transaction data tx , and a pointer s to the previous block in the chain [27]. The value $H(B)$, where H is a cryptographically secure hash function modelled as a random oracle [8], is used as the s' to include in the next block. Each block must satisfy the proof-of-work equation requiring that $H(B) \leq T$, where T is the *mining target*. In the *static difficulty model* [26, 27], T is assumed to be a constant, but in the *variable difficulty model* [28], T varies with time depending on how much mining power exists on the network. Our final construction will work in both models, as well as proof-of-stake, but for now let us assume that T is a constant and that we are working in a proof-of-work setting.

To address blocks within a chain \mathcal{C} , we will use $\mathcal{C}[i]$ to mean the i^{th} (zero-based) block from the beginning, and $\mathcal{C}[-i]$ to mean the i^{th} (one-

based) block from the end. So $\mathcal{C}[0]$ indicates the *genesis* block, $\mathcal{C}[-1]$ is the current tip. $|\mathcal{C}|$ denotes the chain length. We use $\mathcal{C}[i:j]$ to denote the subchain starting at the i^{th} block (inclusive) and ending at the j^{th} block (exclusive). Omitting i takes the range to the beginning, while omitting j takes the range to the end. Similarly, we use $\mathcal{C}\{A:Z\}$ to denote the subchain starting at block A (inclusive) and ending at block Z (exclusive), again allowing for omissions.

In the decentralized setting, each of the honest parties maintaining the blockchain keeps a local chain \mathcal{C} which may be different from the others. It is known [27] that these chains cannot deviate much from each other. In particular, the *Common Prefix* property mandates that they must all share a long common prefix and can only deviate with forks of length up to $k \in \mathbb{N}$, a constant determined by the security parameter of the execution. Formally, if at any round r_0 an honest party P_0 has adopted a chain \mathcal{C}_0 , then at any round $r_1 > r_0$, any honest party P_1 will have adopted a chain \mathcal{C}_1 with the property that $\mathcal{C}_0[: -k]$ is a prefix of \mathcal{C}_1 . This gives rise to the *safety* property of the ledger: Any transaction that appears prior to $\mathcal{C}[-k]$ is considered confirmed, and it will eventually appear at the same position in the chains of all honest parties.

The chain of an honest party grows with a certain rate, which is bounded from below and above with overwhelming probability. This is known as the *Chain Growth* property (the backbone [27] work contains a proof for the lower bound; a proof of the upper bound is found in the Appendix). This gives rise to *liveness*: If a transaction is submitted to the network, it will eventually appear confirmed to all honest parties, after at most $\ell \in \mathbb{N}$ blocks have elapsed. These two security parameters k and ℓ that govern the evolution of the chain are polynomial in the underlying cryptographic security parameter κ , but constant in the execution time.

Timelock encryption. Our construction critically relies on *timelock encryption*. Timelock encryption allows us to *timelock* a secret so that it can be unlocked at a prespecified date and time t in the future, but not prior to that. Timelock encryption consists of two algorithms:

1. a *timelock* algorithm $\text{timelock}(m, t)$, which takes a plaintext message m and a timestamp t after which decryption should be possible, and returns a ciphertext c encrypted for time t , and
2. a *timeunlock* algorithm $\text{timeunlock}(c, w)$, which takes a ciphertext c encrypted using *timelock*, as well as a witness w illustrating that indeed time t has passed.

When the time t has elapsed, it becomes easy to compute a *witness* which is not possible to compute earlier than the target time. At that point, the `timeunlock` function can be called with this witness w for time t , and it returns the original message m :

$$\text{timeunlock}(\text{timelock}(m, t), w) = m$$

Prior to time t having elapsed, timelock encryption security mandates that the ciphertexts corresponding to the encryptions of two plaintexts m_1 and m_2 should be indistinguishable from one another.

Witness encryption. To construct timelock encryption, it has been proposed [40] to use *Witness Encryption* (WE). A Witness Encryption scheme is a quite generic encryption scheme in which a plaintext can be encrypted into a ciphertext that can be decrypted *only* if a solution to a computational problem is given. More concretely, the Witness Encryption scheme is parametrized by an NP language \mathcal{L} (which describes a decision problem) and an associated relation \mathcal{R} (which verifies a solution to the problem). The language \mathcal{L} is a set of *problem instances* x (the inputs for which the problem answer is *yes*). For each instance $x \in \mathcal{L}$, there exists a witness w such that $x\mathcal{R}w$ holds. For non-instances $x \notin \mathcal{L}$, no such witness exists. The relation \mathcal{R} is polynomially computable.

A witness encryption scheme, parametrized by an NP language given by relation \mathcal{R} consists of two algorithms:

1. an *encryption* algorithm $\text{WE.ENC}_{\mathcal{R}}(m, x)$, which takes a plaintext m and a problem instance x and returns a ciphertext c encrypted for this problem instance, and
2. a *decryption* algorithm $\text{WE.DEC}_{\mathcal{R}}(c, w)$, which takes a ciphertext c and a witness w and returns the decrypted plaintext m as long as $x\mathcal{R}w$.

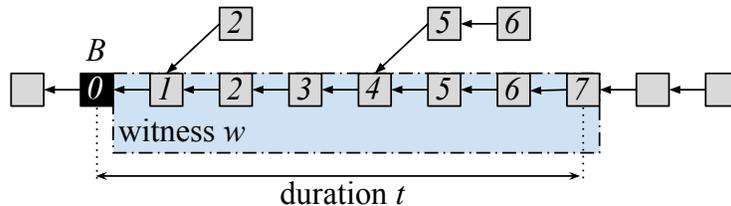
The *correctness* of the witness encryption requires that, whenever $x\mathcal{R}w$, it holds that $\text{WE.DEC}_{\mathcal{R}}(\text{WE.ENC}_{\mathcal{R}}(m, x), w) = m$. On the other hand, the *security* of the scheme mandates that an adversary given $c = \text{WE.ENC}_{\mathcal{R}}(m, x)$ can extract information about m only if they can also produce (through a helper *extractor* machine) a valid witness w such that $x\mathcal{R}w$, except with negligible probability. Hence, a correct and secure witness encryption scheme allows a party to decrypt a ciphertext encrypted with a problem instance *if and only if* the party can solve the problem instance by providing a witness.

To construct timelock encryption using witness encryption, the problem statement asks for the existence of a series of blockchain work nonces

that solve the proof-of-work equation (or a series of correctly signed proof-of-stake blocks with the appropriate chain length), as illustrated in Figure 1.

The instantiation of timelock encryption using witness encryption begins by identifying the chain tip B . The timelock time t is expressed in chain time: We ask that a certain number of blocks must have been mined on top of B in order for the secret to become decryptable. The witness encryption NP language contains the integers $t \in \mathbb{N}$ indicating that there exists a block with additional block height t descending from the known block B . The witness consists of a series of nonces ctr_i and transaction root hashes tx_i such that $B_0 = B$ and $B_i = \langle \text{ctr}_i, \text{tx}_i, H(B_{i-1}) \rangle$ and $H(B_i) \leq T$, where i ranges from 1 to t . Therefore, the timelock function $\text{timelock}(m, t)$ is defined as $\text{WE.Enc}_{\mathcal{R}}(m, x)$ where \mathcal{R} corresponds to the relation checking the validity of the blockchain and x corresponds to the number of blocks t as well as the current chain tip B . The unlock function $\text{timeunlock}(c, w)$ is defined as $\text{WE.Dec}_{\mathcal{R}}(c, w)$ under the same relation \mathcal{R} where w consists of the sequence of ctr_i and tx_i . For the security proof of instantiating timelock encryption using witness encryption applied on a blockchain, consult Liu et al. [40].

Fig. 1. A timelock implemented using the moderately hard NP language of blockchain discovery. Here, the problem instance $x = (B, t)$ requests $t = 7$ blocks on top of B . The witness consists of the block headers produced sequentially on top of B , irrespective of any temporary forks that might have occurred.



Let us observe what the outcome of encrypting secrets in this manner is. Whenever a secret is encrypted for block time t following block B , the secret remains hidden until time t has arrived. The secret cannot be decrypted prior to that time, because decrypting it would require the decrypting party to produce (through an extractor) a witness w which is a blockchain of height t extending B . However, due to the *Common Prefix* property of the blockchain, no adversary can do that much sooner than the honest parties converge to that height. Furthermore, the *chain growth*

rate is bounded both *above* (see Appendix for a short proof of this) and *below* [27] by a certain *velocity*, and so, while we do not know its exact growth rate, we can give a reasonable estimate of how quickly and slowly it will grow (with overwhelming probability). When sufficient time has elapsed, the miners will have produced a witness that anyone can use to decrypt the secret. The result is that no one can know the secret prior to the desired block height, but everyone will know it afterwards. Because the adversary can have a chain that is leading by up to k blocks, she has a short advantage in decrypting the secret slightly ahead of the honest parties. In that sense, the secret begins *leaking* to the adversary at block time $t - k$. This will require us to establish certain time bounds in our construction. Note here that no validity is ensured in tx_i , but the common prefix property of blockchains makes this unnecessary.

Our security proof will hinge on the fact that the blockchain has the *common prefix* property: If an adversary can decrypt the witness encrypted ciphertext *much* earlier than the honest parties, then she will need to have produced a chain which significantly deviates from the honest parties' chain, but this is improbable.

The witnesses to these problem instances can grow linearly together with the blockchain. To reduce witness size, a (zero knowledge) proof of knowledge such as a zk-SNARK [9] can be used. In this case, instead of witness encrypting against a decryptor who “knows a witness consisting of a list of chain headers that satisfy the blockchain properties,” one can instead witness encrypt against a decryptor who “knows a witness consisting of a zero-knowledge proof of knowledge attesting to the knowledge of chain headers that satisfy the blockchain properties.” This composition of witness encryption and zero-knowledge proofs allows the witnesses presented to the blockchain to become constant size [40].

Contrary to timelock schemes that require the interested party to devote compute power to decrypt the secret over time, the scheme using blockchain witnesses allows any party (who can remain offline and have limited compute power) to take advantage of the scheme.

Variable difficulty. In the variable difficulty model, the target T is adjusted based on how the chain evolves. Concretely, the chain is split into *epochs* of constant block length m each. At the end of each epoch, the timestamp at the end of the chain is noted and the mining target is adjusted with the aim of keeping the expected block production rate constant. The way T is adjusted is algorithmically determined, and it is important that it follows certain rules. While we will not articulate the exact rules, we remark that the new value T' must fall within a range

$\tau T, \frac{1}{\tau}T$, where $\tau \in (0, 1)$ (for example, Bitcoin sets $\tau = \frac{1}{4}$). This critical condition is necessary to avoid certain attacks [7].

Proof-of-stake. Contrary to proof-of-work blockchains, a proof-of-stake chain progresses in *slots* (prefixed time durations) during which parties can create blocks or remain silent. As in proof-of-work, each block header B_i consists of $\langle \text{tx}_i, s_i \rangle$, but now does not include a ctr_i . The blocks created at each slot are accompanied by a signature σ_i created by a designated leader for the slot. A proof π_i illustrating the designated leader is the rightful one is also broadcast together with the block. The probability that a party becomes a leader at a given slot is roughly proportional to the stake they hold within the system. These proofs of leadership are different depending on the system and can be the random outcome of a multiparty computation, as in the *Ouroboros* [38] system, or a verifiable random function [44] evaluated on this randomness, as in the *Ouroboros Praos* [23] construction. In the first system, each slot is allocated to precisely one party, and the production of no blocks, or two competing blocks in the same slot, indicates adversarial behavior. In the second system, it is possible that a slot is allocated to multiple honest parties, or no parties at all. These details do not affect our scheme, as long as the following property is maintained: For any $2k$ consecutive slots, at least $k + 1$ slots are allocated to an honest party. Additionally, we will assume that the common prefix property holds here, too.

As in proof-of-work, the chain is split into epochs. At the end of each epoch, a multiparty computation is performed to determine the randomness value for the next epoch based on the stake distribution during the current epoch. Different systems use different MPCs. Our only requirement is that these MPCs provide some evidence u_e that the randomness for epoch e is ρ_e . This evidence must be polynomially checkable in retrospect. This requirement is satisfied in proof-of-stake blockchains, as it is this evidence that allows new nodes to bootstrap correctly [5].

3 A Password Wallet

Let us start by building a password-based wallet without the use of private keys. This construction will be a stepping stone for the next. In this construction, we will have a severe limitation: The wallet can only be used to spend *once*, and at a *predetermined time*. Once the wallet has been used, it cannot be reused with the same password. Furthermore, the wallet becomes unusable if the funds have not been spent prior to the maturity date.

From a user point of view, the wallet works as follows. Initially, Alice chooses a secret password with λ bits of entropy. We will determine this λ later, but let us say, with foresight, that it will be enough to have a password just 6 alphanumeric characters long. Alice also chooses a *maturity date*, a timestamp in the future (expressed as chain height), and uses her wallet software to generate a smart contract which she then posts on the chain. This generates a public wallet address for Alice that she can use to receive multiple payments prior to the maturity date. The wallet software can then be discarded and no secret information needs to be kept by Alice, beyond the secret password that she remembers, and the public contract that remains on the chain. No private keys are stored anywhere. A short period before the maturity date arrives, Alice uses the wallet software to connect to the chain network, and enters her password and desired destination. The software issues two transactions to the chain: First, a $\text{tx}_{\text{commit}}$ transaction, which lets Alice illustrate prior knowledge of her secret password; and, second, a $\text{tx}_{\text{reveal}}$ transaction, in which Alice proves that her previous commitment indeed corresponds to the secret password committed on the chain. The first transaction is posted strictly prior to the maturity date, while the second transaction is posted on or after the maturity date.

Algorithm 1 A password-only wallet with a maturity date.

```

1: contract PasswordWallet
2:   BLOCK_DELAY  $\leftarrow 2k$ 
3:    $c \leftarrow \perp; t_1 \leftarrow \perp$ 
4:   commitments  $\leftarrow \emptyset$ 
5:   function construct( $\bar{c}, \bar{t}_1$ )
6:      $c \leftarrow \bar{c}$ 
7:      $t_1 \leftarrow \bar{t}_1$ 
8:   end function
9:   function commit( $z$ )
10:    require(block.number <  $t_1 - \text{BLOCK\_DELAY}$ )
11:    commitments[ $z$ ]  $\leftarrow \text{true}$ 
12:   end function
13:   function reveal( $\text{sk}, \text{salt}, \alpha_{\text{to}}, w$ )
14:      $z \leftarrow H((\text{sk}, \text{salt}, \alpha_{\text{to}}))$ 
15:     require(commitments[ $z$ ])
16:     require(WE.Dec $\mathcal{R}(c, w) = \text{sk}$ )
17:      $\alpha_{\text{to}}$ .transfer(address(this).balance)
18:   end function
19: end contract

```

Let us explore how the contract is implemented. The smart contract construction for the wallet is illustrated in Algorithm 1. It consists of three methods: A **construct** method, called when the wallet is initialized; a **commit** method, called shortly prior to the maturity date; and a **reveal** method, called after the maturity date. These two last methods are used for spending.

The interaction with the wallet is illustrated in Algorithm 2. When Alice wishes to deploy her wallet, she begins by generating a password $sk \stackrel{\$}{\leftarrow} \{0, 1\}^\lambda$. She also chooses a future timestamp at which she will be able to spend her money. She submits this information to her software wallet. The software wallet connects to the blockchain and observes the current stable blockchain tip $B = \mathcal{C}[-k]$ and its height t_0 . Alice's timestamp choice is translated to a future block height $\Delta \in \mathbb{N}$ which denotes how far in the future, in block height after t_0 , she wants to spend her money: If $\Delta = 100$, the money will be spendable when the blockchain reaches height $t_0 + \Delta$ blocks. We set $t_1 = t_0 + \Delta$ to be the block height at which spending becomes possible. The software wallet constructs the contract of Algorithm 1 by broadcasting its construction transaction $\text{tx}_{\text{construct}}$ to the blockchain network. The constructor accepts two parameters: The t_1 parameter, and the c parameter. The c parameter is a timelock-encrypted ciphertext of her password. Concretely, Alice's software wallet sets $c = \text{timelock}(sk, t)$ by invoking $\text{WE.Enc}_{\mathcal{R}}(sk, x)$. Here, \mathcal{R} denotes the polynomially computable relation validating block headers starting from a particular block and continuing up to a prespecified block height, checking ancestry and proof-of-work nonces, as described in the preliminaries. The problem instance $x = (B, t)$ is the tuple consisting of the latest known stable block and the maturity height. Observe now that the ciphertext c which is published on the smart contract and known to the adversary is a ciphertext which can only be decrypted after t blocks have been mined on top of block B . The transaction returns a wallet address pk at which she can receive money prior to the maturity height.

To spend her money, Alice runs the wallet software anew and inputs her public wallet address pk , her password sk , and destination address α_{to} . The wallet software does not have any information beyond this. The software runs an honest chain node which observes a chain \mathcal{C} . At any time before its local chain reaches height $t_1 - \ell - 2k$, the wallet generates a new high-entropy salt $\text{salt} \stackrel{\$}{\leftarrow} \{0, 1\}^\kappa$ (where κ is a security parameter in the order of 128). This salt is short-lived ($\ell - 2k$ blocks) and must survive until the chain reaches height t_1 . It then creates a transaction $\text{tx}_{\text{commit}}$. This transaction contains a commitment z evaluated as $z = H(\langle sk, \text{salt}, \alpha_{\text{to}} \rangle)$,

where we assume that the encoding $\langle \cdot \rangle$ denotes a uniquely decodable encoding of the triplet. This transaction is submitted to the smart contract by invoking the `commit` method. Due to the liveness of the ledger, the transaction is confirmed in a block with height at most $t_1 - 2k$. The smart contract records the commitment, as the requirement in Line 10 is satisfied, and stores it in the `commitments` set.

Algorithm 2 Interacting with the password wallet.

```

1: BLOCK_DELAY  $\leftarrow 2k$ 
2:  $pk \leftarrow \perp$  ▷ Published so that money can be received
3:  $B \leftarrow \perp$  ▷ Published on insecure public storage
4:  $t_1 \leftarrow \perp$  ▷ The maturity date
5: upon initialize( $t$ ) do
6:    $sk \xleftarrow{\$} \{0, 1\}^\lambda$  ▷ Password is generated with low entropy  $\lambda$ 
7:    $B \leftarrow \mathcal{C}[-k]$  ▷ Latest stable block
8:    $x \leftarrow (B, t)$  ▷ NP language problem instance
9:    $c \leftarrow \text{WE.Enc}_{\mathcal{R}}(sk, x)$ 
10:   $pk \leftarrow \text{PasswordWallet.construct}(c, t)$ 
11:   $t_1 \leftarrow t$ 
12:  return  $sk$  ▷ The user must remember this
13: end upon
14: upon spend( $sk, \alpha_{to}$ ) do
15:   ▷ At any time prior to  $|\mathcal{C}| < t_1 - \ell - 2k$ 
16:    $\text{salt} \xleftarrow{\$} \{0, 1\}^\kappa$  ▷ Generate short-lived high-entropy salt
17:    $z \leftarrow H((sk, \text{salt}, \alpha_{to}))$ 
18:   PasswordWallet.commit( $z$ )
19:   wait until  $|\mathcal{C}| = t_1$ 
20:    $w \leftarrow \mathcal{C}\{B:\}$ 
21:   PasswordWallet.reveal( $sk, \text{salt}, \alpha_{to}, w$ )
22: end upon

```

After the local chain of the wallet reaches height t_1 (due to the Chain Growth lower bound, this will be soon enough [27]), the software gathers the block headers $\mathcal{C}[t_0:t_1]$ to construct a timelock witness w . It then creates a transaction $\text{tx}_{\text{reveal}}$ which invokes the `reveal` method of the smart contract and includes the plaintext password sk , which now becomes public, the plaintext `salt`, which also becomes public information, the target address α_{to} , and the witness w . The `reveal` method checks that the submitted data corresponds to the previous commitment, and that the stored encrypted password c timelock decrypts to the provided password sk . In that case, it forwards the money to the α_{to} address.

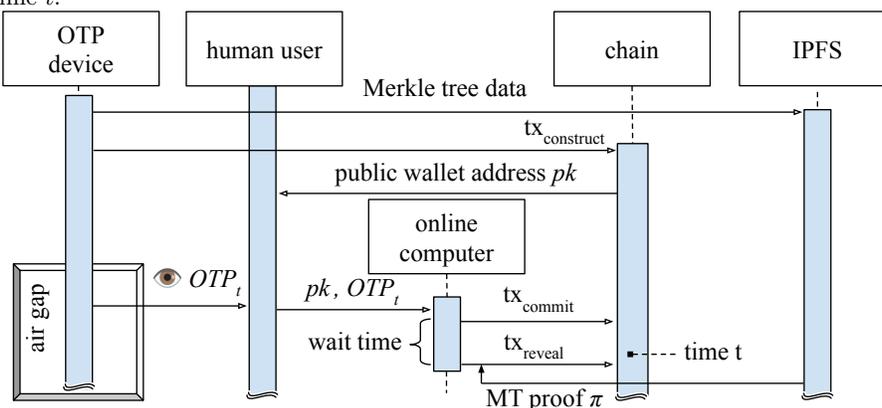
The `commitments` variable is a *set* to avoid denial of service attacks. If the honest party submits a *commit* transaction, the adversary should not be able to overwrite this. Therefore, the wallet stores *all* commit transactions in the set and checks that the correct one is revealed afterwards. The reason why the target address α_{to} is placed in the hash commitment is to avoid front running attacks. The target address is *tied* to the knowledge of the password. If the adversary replays the commitment, she cannot change the target address.

We now give a high-level overview of the correctness and security of this scheme. The *correctness* property of the wallet mandates that the honest wallet user can create a valid spending transaction, i.e., a transaction which executes *reveal* to completion. The *security* property mandates that the adversary cannot create a valid transaction. These properties, together, ensure that the honest user can spend her money, while the adversary cannot.

On the one hand, the scheme is correct, because the honest user can always create the commit and reveal transactions in order, and, due to liveness, these cannot be censored. When time t_1 arrives, the smart contract can verify the veracity of the claims and issue the final transfer. On the other hand, the scheme is secure, because, prior to time t_1 the adversary does not hold a chain of length t_1 . Without such a chain, the adversary cannot distinguish a correct from an incorrect guess, due to the security of witness encryption. Any guess the adversary makes is as good as any. However, all of these guesses must be committed to the smart contract sufficiently before time t_1 arrives. And, so, the adversary must choose to blindly submit some guesses and hope that some of them are correct. This very soon becomes uneconomical, even if the password length is quite short. We give more details on the security of the scheme in the subsequent Analysis section.

One detail to note here is that the time t_1 is given in block time. Because the rate of blockchain growth can vary, the honest party must monitor the chain and ensure that block height t_1 has not passed. This is one additional limitation of this scheme that makes it unusable. Additionally, the password can only be used once. In the next section, we lift these limitations.

Fig. 2. The sequence diagram of the OTP wallet. After initialization, the OTP device becomes air gapped and the user submits the OTP visually to an online computer at time t .



4 An OTP Wallet

The previous password-based construction has an important limitation: The money can only be spent once and at a prespecified date. This makes the wallet highly unusable in practice.

Using the previous construction as a stepping stone, we now move on to describe our *Hours of Horus* scheme. This is an OTP-based scheme in which the OTP is used as the *single factor* for wallet access, without any need to use private keys for signing.

The workflow of the OTP wallet is illustrated as a sequence diagram in Figure 2. At the beginning, Alice initializes a time-based OTP device (such as a mobile phone app) which generates and stores an OTP seed (leftmost column). Upon this generation, the device also generates a smart contract, which is constructed and submitted to the chain through a transaction $tx_{construct}$, as in the construction of Section 3. This transaction generates a wallet address pk to which payers can send money for Alice. The OTP device also constructs a Merkle tree containing a large number of encrypted future OTPs and submits them to IPFS [10] (or other persistent storage service) publicly for availability reasons (rightmost column). These data could also be submitted to the chain, if gas costs allow. Both pk and all internal Merkle tree nodes are public. After this initial phase, the OTP device becomes air gapped.

At any time Alice wishes to spend, she visually consults her OTP device which displays a time-based OTP key. Using a (newly booted)

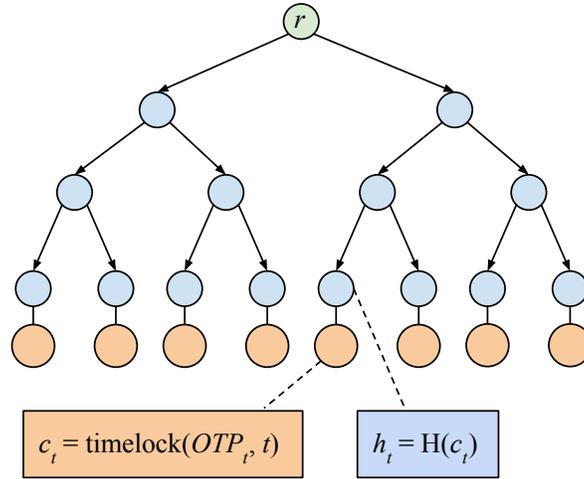
online computer, she creates a transaction $\text{tx}_{\text{commit}}$ in which she commits to the OTP , the amount she wishes to spend, and the target address. The wallet waits a short amount of time before submitting the final $\text{tx}_{\text{reveal}}$ to confirm the spending. This transaction is accompanied by a Merkle tree proof-of-inclusion constructed using the IPFS data. The wallet then releases the payment to the desired address.

Let us now give the technical details of how these transactions are constructed. The smart contract deployed as a wallet is illustrated in Algorithm 3. The interaction with the smart contract by the user is illustrated in Algorithm 4. The constructor method of the smart contract accepts a parameter r denoting a root of a Merkle tree. This is constructed by generating a large number (MAX_TIME) of time-based OTPs for the foreseeable future. For example, to support a wallet with a lifetime of 100 years with an hourly OTP resolution, 876,000 codes need to be generated. Let OTP_t denote the OTP for future time $t \in \mathbb{N}$ (in the example, t would range from 1 to 876,000). These are generated from the OTP seed in the OTP device by invoking the pseudorandom function $\mathcal{G}(\text{seed}, t)$ whose output has λ bits of entropy. Each such OTP is then timelock encrypted for time t , multiplied by the expected hourly production rate of the blockchain (the *hourly* resolution is an arbitrary choice that can be made differently, giving rise to a tradeoff between how much data must be stored on IPFS versus how often the user can spend her money). Specifically, the software computes $c_t = \text{timelock}(OTP_t, t)$, which is implemented as before using witness encryption on top of the most recent known block B , setting $c_t = \text{WE.Enc}_{\mathcal{R}}(OTP_t, x)$, where $x = (B, t)$. All of these c_t are then organized into a Merkle tree as illustrated in Figure 3 using the collision-resistant hash function H whose root is r . This r is submitted to the constructor.

When the time comes for Alice to spend her money, she calls the `commit` method of the smart contract by issuing a $\text{tx}_{\text{commit}}$ transaction. This method takes parameters z and t . Here, z is the commitment $z = H(\langle \text{OTP}, \text{salt}, \alpha_{\text{to}}, \text{amount} \rangle)$. For t , Alice looks at her local blockchain \mathcal{C} , obtains its length $|\mathcal{C}|$ and evaluates $t = |\mathcal{C}| + \ell + 2k$. So, t is a time (expressed in block height) at least $\ell + 2k$ blocks in the future. As liveness ensures that this transaction will be confirmed within ℓ blocks, the condition on Line 11 will succeed. The smart contract records the pair (z, t) in the `commitments` set. Alice then waits for her chain to grow to a height of at least t blocks, at which point she issues the $\text{tx}_{\text{reveal}}$ transaction calling the `reveal` method of the smart contract. She reveals the OTP (this is no longer useful to any adversary), the salt, as well as the destination

address and amount to be transferred. These are accompanied by a proof-of-inclusion π at position t in the Merkle Tree whose root r is recorded in the smart contract obtained from the data stored on IPFS (anyone can compute this). Additionally, it is accompanied by a witness that time t has passed by providing the chain portion $\mathcal{C}\{B:\}$ (this can also be computed by anyone). The smart contract verifies that the provided data is included in previous commitments, that the Merkle tree proof is valid for the specified position, and that the timelock encryption of the provided OTP indeed corresponds to the given ciphertext.

Fig. 3. Each OTP_t is timelocked with time t . All the timelock ciphertexts c_t are then organized into a Merkle Tree whose root is r .



The honest party will always succeed in creating a valid spending transaction. To see this, note that the party begins creating the commit transaction at time $t - \ell - 2k$. Due to liveness, it becomes confirmed at block $t - 2k$ at most, and so the check in Line 11 will pass. The reveal transaction will be called with the corresponding data and release the funds.

Algorithm 3 Hours of Horus: A short OTP wallet.

```
1: contract OTPWallet
2:   BLOCK_DELAY  $\leftarrow 2k$ 
3:   HOURLY_LIMIT  $\leftarrow 1$  ether
4:    $r \leftarrow \perp$ 
5:   spent  $\leftarrow \emptyset$ 
6:   commitments  $\leftarrow \emptyset$ 
7:   function construct( $\bar{r}$ )
8:      $r \leftarrow \bar{r}$ 
9:   end function
10:  function commit( $z, t$ )
11:    require( $t > \text{block.number} + \text{BLOCK\_DELAY}$ )
12:    commitments[ $z$ ][ $t$ ]  $\leftarrow \text{true}$ 
13:  end function
14:  function reveal(OTP, salt,  $\alpha_{\text{to}}$ , amount,  $c_t, w, t, \pi$ )
15:     $h \leftarrow H(\langle \text{OTP}, \text{salt}, \alpha_{\text{to}}, \text{amount} \rangle)$ 
16:    require(commitments[ $z$ ][ $t$ ])
17:    require(amount  $\leq$  HOURLY_LIMIT)
18:    require( $\neg \text{spent}[t]$ )
19:    require(MT.Ver( $c_t, t, r, \pi$ ))
20:    require(WE.Dec $\mathcal{R}(c_t, w) = \text{OTP}$ )
21:    spent[ $t$ ]  $\leftarrow \text{true}$ 
22:    to.transfer(amount)
23:  end function
24: end contract
```

To see why an adversary cannot create a valid spending transaction beyond random guessing, we note that any adversary can either provide a commit transaction prior to block $t - 2k$, or afterwards. If she provides a commit transaction prior to it, then the timelock scheme will protect the secret, and so the spending transaction will include a random OTP guess. On the other hand, if she provides a commit transaction afterwards, it will not be accepted due to the time delay enforced in Line 11. Consult the Analysis section for a more complete argument.

We remark that a standard time-based OTP cannot be used in this case, because the chain, as a stochastic process, may have grown faster or slower than expected. The OTP device must know the current height of the blockchain to be able to reveal the correctly indexed OTP (which will reside at OTP index $|\mathcal{C}| + \ell + 2k$). One practical way to achieve this is to have the mobile wallet (or a block explorer) display the current block height, which can then be inputted by the user to the OTP application.

The OTP scheme can be used either as a single-factor or as a second factor combined with a private key if desired. It is an effective second

factor because, if either, but not both, of the private key or the OTP device become compromised, the wallet remains secure.

Algorithm 4 Interacting with the Hours of Horus wallet.

```

1: BLOCK_DELAY  $\leftarrow 2k$ 
2: seed  $\leftarrow \perp$  ▷ After generation, remains air gapped
3: pk  $\leftarrow \perp$  ▷ Published so that money can be received
4: c  $\leftarrow []$  ▷ Published on insecure public storage (e.g., IPFS)
5: B  $\leftarrow \perp$  ▷ Published on insecure public storage
6: upon initialize do
7:   seed  $\xleftarrow{\$}$   $\{0, 1\}^\kappa$  ▷ Seed is generated with high entropy  $\kappa$ 
8:   B  $\leftarrow \mathcal{C}[-k]$  ▷ Latest stable block
9:   for t  $\leftarrow 1$  to MAX_TIME do
10:    OTPt  $\leftarrow \mathcal{G}(\text{seed}, t)$  ▷ Time t OTP with low entropy  $\lambda$ 
11:    x  $\leftarrow (B, \text{HOURLY\_BLOCK\_RATE} \cdot t)$ 
12:    ct  $\leftarrow \text{WE.Enc}_{\mathcal{R}}(\text{OTP}_t, x)$ 
13:    c  $\leftarrow c \parallel c_t$ 
14:   end for
15:   r  $\leftarrow \text{MT.build}(c)$ 
16:   pk  $\leftarrow \text{OTPWallet.construct}(r)$ 
17: end upon
18: upon spend( $\alpha_{\text{to}}$ , amount) do
19:   t1  $\leftarrow |\mathcal{C}| + \ell + \text{BLOCK\_DELAY}$ 
20:   salt  $\leftarrow \{0, 1\}^\kappa$  ▷ Generate short-lived high-entropy salt
21:   OTPt  $\leftarrow \mathcal{G}(\text{seed}, t_1)$ 
22:   z  $\leftarrow H((\text{OTP}_t, \text{salt}, \alpha_{\text{to}}, \text{amount}))$ 
23:   OTPWallet.commit(z, t1)
24:   wait until | $\mathcal{C}$ | = t1
25:   w  $\leftarrow \mathcal{C}\{B:\}$ 
26:    $\pi \leftarrow \text{MT.prove}(c_t, c)$ 
27:   OTPWallet.reveal(OTPt, salt,  $\alpha_{\text{to}}$ , amount, ct, w, t1,  $\pi$ )
28: end upon

```

One critical point of infrastructure is the online computer to which the user inputs their OTP code. If that computer becomes compromised, it can change the target address and amount that the user is inputting and deplete the wallet. One practical mechanism to cut the user’s losses is to establish an hourly limit in the amount that can be spent by the wallet, as illustrated in Algorithm 3. In such a case, the compromised computer can only steal the user’s funds *once*, and up to the specified hourly limit, before being detected.

5 Analysis

We now give a more complete analysis of the scheme. First, let us prove that the Password-based wallet of Algorithm 1 is correct.

Theorem 1 (Password Wallet Correctness (Informal)). *Let the blockchain have liveness and safety, and let the witness encryption scheme WE be correct. An honest party spending at block height $t_1 - \ell - 2k$ or earlier will generate a valid spending transaction for Algorithm 1.*

Proof (Sketch). The contract is created when $B = \mathcal{C}[-k]$ is stable. Due to safety, all the future chains will be extending this block. The contract is initialized with $x = (B, t)$ by issuing the $\text{tx}_{\text{construct}}$ transaction. Due to liveness, this transaction is confirmed within ℓ blocks. The honest user then creates a transaction $\text{tx}_{\text{commit}}$ when her own chain has length $|\mathcal{C}| = t_1 - \ell - 2k$. Due to liveness, this transaction becomes confirmed for all honest parties after ℓ blocks have elapsed, and is placed in position $\mathcal{C}[t_1 - 2k]$ or earlier. Therefore, Line 10 of the method *commit* succeeds. When $|\mathcal{C}| = t_1$, the honest user calls *reveal*, passing w . Due to the correctness of the witness encryption scheme, the decryption succeeds. The password and salt revealed match the ones committed. Due to liveness, this transaction becomes confirmed.

The correctness of the OTP-based scheme is similar.

Theorem 2 (OTP Wallet Correctness (Informal)). *Let the blockchain have liveness and safety, and let the witness encryption scheme WE be correct. An honest party spending multiple times prior to $\text{MAX_TIME} - \ell - 2k$ will succeed in creating valid transactions. in Algorithm 3.*

Proof (Sketch). The proof is the same as above, with the difference that the value t is provided at the commit time, not the construct time. The argument that Line 11 will be successful remains the same due to liveness.

Our security analysis is in a hybrid *cryptographic* and *cryptoeconomic* setting. In the system described, we have two security parameters. First, we have the *cryptographic* security parameter κ (≈ 128 bits), which determines the security of the hash function, the security of the witness encryption scheme, and the security of the blockchain (in terms of liveness, safety, and common prefix). The probability of failure is negligible in this parameter. Any breakage in this parameter can be catastrophic for the system and can potentially provide the adversary with gains without

any cost. Secondly, we have the much shorter *cryptoeconomic* security parameter λ (≈ 35 bits) which denotes the entropy of the chosen user password sk or the length of each OTP OTP_t . While this parameter is hopelessly short from a cryptographic point of view (and 2^{-35} is nothing but negligible), we will use it to establish a lower bound in the economic cost of an attack. In particular, we will tweak this parameter so that the return-on-investment of an attack can be made arbitrarily close to -100% . The result will be that the adversary can make the probability of success non-negligible, but at an economic cost which renders such attempts irrational.

We begin by stating our Decentralized Rate Limiting lemma, which establishes that an adversary must necessarily submit transactions to the blockchain in order to have any non-negligible probability of success. The probability of success is determined by the number of transactions submitted by the adversary and made persistent by the system. Based on this result, we will determine the cryptoeconomic parametrization (λ) required to make the system economically infeasible to attack.

Lemma 1 (Decentralized Rate Limiting (Informal)). *Consider a static difficulty proof-of-work blockchain with safety and common prefix. Let the hash function H be collision-resistant and preimage-resistant, and let the witness encryption scheme WE be a secure witness encryption with witness extractability. A PPT adversary who submits fewer than g transactions that are eventually confirmed by all honest parties has a probability of achieving a valid spending transaction in Algorithm 1 upper bounded by $\frac{g}{2^\lambda} + \text{negl}(\kappa)$.*

Proof (Sketch). In order for the adversary to have a valid transaction, she must have created a $\text{tx}_{\text{reveal}}$ in which she passes a password sk , a salt and a α'_{to} address which is different from the honestly provided α_{to} address. This reveal transaction must be confirmed into the chain \mathcal{C} adopted by a verifier honest party P_v and have matching data with a previous $\text{tx}'_{\text{commit}}$ transaction which was placed earlier in \mathcal{C} . Additionally, $\text{tx}'_{\text{commit}}$ must be in $\mathcal{C}[t_1 - 2k]$ or earlier (due to the check in Line 10). Due to the collision resistance of H , the respective commit transaction must be different from the one ($\text{tx}_{\text{commit}}$) provided by the honest party, as $\alpha_{\text{to}} \neq \alpha'_{\text{to}}$.

Let r_c denote the round during which the spender honest party P_s broadcasts their $\text{tx}_{\text{commit}}$ transaction to the network, and let r_z denote the last round during which *all* honest parties have chains with length of at most $t_1 - k$.

Let us consider all adversarially generated commit transactions $\text{tx}_{\text{commit}}^i$ ($i \geq 1$) that are eventually reported as *stable* by P_v (the adversary can also create transactions that do not make it in the chain of P_v , but we will not count these). For these transactions, let us consider the round r_i during which each of these transactions $\text{tx}_{\text{commit}}^i$ was created.

Case 1: $r_i < r_c$. Since the honest spender has not yet submitted a commitment, the only information that the adversary has is the ciphertext c . If at this round the adversary can distinguish between sk and any other plaintext in $\{0, 1\}^\lambda$ with probability non-negligible in κ , then, due to the witness extractability of WE, an extractor can extract a witness w attesting to the existence of a chain of height t_1 . But in that case, we can perform a computational reduction to an adversary that breaks the common prefix property of the chain by producing a chain of height t_1 at round r_i when the honest party P_v has adopted a chain of length only $t_1 - \ell - 2k$. This breaks the common prefix assumption.

Case 2: $r_c \leq r_i \leq r_z$. In this case, the honest spender has broadcast a commitment to the network, but there are no chains of length t_1 . The adversary now holds both the timelocked ciphertext c and the commitment z . Again the adversary should not be able to distinguish between sk and any other plaintext in $\{0, 1\}^\lambda$, except with probability negligible in κ (recall that the **salt** is kept secret and has κ bits of entropy). Otherwise, we can either perform a reduction to a common-prefix-breaking adversary making use of witness extractability, or we can perform a reduction to a preimage-resistance-breaking adversary.

Case 3: $r_i > r_z$. By the definition of r_z , in round r_i there must exist an honest party with a chain of length at least $t_1 - k$. By the common prefix property, all other honest parties have a chain of length exceeding $t_1 - 2k$.

Let us consider what happens in all of these three cases. In the first two cases, any *single* guess that the adversary places into a transaction can be correct with probability $\frac{1}{2^\lambda} + \text{negl}(\kappa)$. In the third case, while the adversary can potentially guess with better probability (due to the chain reaching its leakage point $t_1 - k$), any such transactions can never make it into the chain eventually adopted by P_v , as the check in Line 10 will fail.

As the transactions that eventually make it into the chain of P_v were all generated prior to r_z , the probability that each of them is a valid spending transaction is upper bounded by $\frac{1}{2^\lambda} + \text{negl}(\kappa)$. If the adversary submits at most g such transactions, and applying a union bound, the overall probability of success is $g(\frac{1}{2^\lambda} + \text{negl}(\kappa)) = \frac{g}{2^\lambda} + \text{negl}(\kappa)$.

The above Lemma is identical for our other construction. We state it for completeness.

Lemma 2 (OTP Decentralized Rate Limiting (Informal)). *Consider a static difficulty proof-of-work blockchain with safety and common prefix. Let the hash function H be collision-resistant and preimage-resistant, and let the witness encryption scheme WE be a secure witness encryption with witness extractability. Let \mathcal{G} be a secure pseudorandom function $\{0, 1\}^\kappa \times \mathbb{N} \rightarrow \{0, 1\}^\lambda$. A PPT adversary who submits fewer than g transactions that are eventually confirmed by all honest parties has a probability of achieving a valid spending transaction in Algorithm 3 upper bounded by $\frac{g}{2^\lambda} + \text{negl}(\kappa)$.*

Proof (Sketch). The proof here is identical to Lemma 1, noting that each of the different OTP_t essentially gives rise to independent attack paths to the adversary. Due to the pseudorandom nature of the OTP scheme, any previous OTPs do not reveal any information to our polynomial adversary. An adversary making a spending attempt has a probability of $\frac{1}{2^\lambda}$ of succeeding in each attempt, unless it can be reduced to a collision-resistance-breaking adversary, a common-prefix-breaking adversary, or an adversary breaking the pseudorandomness of the OTP scheme. But all of these events are negligible in κ .

At this point, we have established that the probability of success is negligible in both parameters κ and λ . However, we will keep the parameter λ short, and we will make the κ parameter reasonably long ($\kappa = 128$). Setting $\lambda = \kappa$ would, of course, give sufficient security. The reason for separating these two parameters is that the λ parameter affects the usability of the system: It is the number of characters that must be remembered by the user in the case of a password, or the number of characters that must be visually copied by the user in the case of an OTP.

In the above result, we have expressed the probability as a sum of two terms: $\frac{g}{2^\lambda} + \text{negl}(\kappa)$. This reflects the nature of the two parameters: We opt to calculate the *concrete* probability with respect to λ , but only give an asymptotic probability with respect to κ . This treatment hints at our intentions: Our high-level argument was to condition the system to the overwhelming events that there will be no cryptographic breakage in the hash function, common prefix property, blockchain safety, blockchain liveness, and OTP pseudorandomness. Conditioned under these events, the concrete probability as a function of λ allows us to make an argument of why any attack is uneconomical. This gives rise to our (cryptoeconomic) security theorem.

Theorem 3 (Cryptoeconomic Security (Informal)). *Consider a chain with fee f per transaction. If the wallet of Algorithm 1 or Algorithm 3 is used with a maximum capital of V , then the parametrization $\lambda > \log \frac{V}{f}$ yields a negative expectation of income for the adversary, with overwhelming probability in κ . Additionally, the expected return-on-investment for this adversary is at most $\frac{V}{f1^\lambda} - 1$.*

Proof (Sketch). Consider an adversary who submits g transactions that are eventually confirmed by every honest party. This adversary is irrevocably investing a capital of gf for this attack. By Lemma 1, the adversary has a probability of success upper bounded by $\frac{g}{1^\lambda}$ (with overwhelming probability in κ). The expected income for this adversary is at most $\mathbb{E}[\text{income}] \leq V \frac{g}{1^\lambda} - gf$. Taking $\lambda > \log \frac{V}{f}$, we obtain $\mathbb{E}[\text{income}] < 0$. The expected return-on-investment is $\frac{\mathbb{E}[\text{income}]}{gf} - 1$.

In this scheme, we can set λ big enough to make the return-on-investment as close to -100% as we want. If we want the return-on-investment to be $-1 + \epsilon$ for some $\epsilon \in (0, 1]$, we let $\lambda = \log \frac{V}{f\epsilon}$. In short, we can make the adversary lose an amount arbitrarily close to all their money in expectation.

To consider some concrete parametrization of the scheme, let us assume that we wish to establish a target -90% ($\epsilon = 0.1$) expected return-on-investment for the adversary in a wallet where we want to store up to $V = \$100,000$ in capital at any point in time. Consider a blockchain where the fees per transaction are¹ at least $f = \$1.60$. We obtain $\lambda = \log \frac{V}{f\epsilon} = \log_2 625,000 < 20$ bits. This corresponds to just 6 numerical characters (base 10), or just 4 alphanumeric characters (base 58). A standard OTP authenticator such as Google’s Authenticator application is therefore appropriate for such parameters. Increasing the maximum capital that will be stored in the wallet by three orders of magnitude to $\$100,000,000$ requires 5 alphanumeric characters instead.

6 Proof-of-Stake

We now adapt our OTP wallet construction to the proof-of-stake setting (the password wallet can also be adapted likewise). For concreteness, we describe a construction for the *Ouroboros* [38] and *Ouroboros Praos* [23]

¹ This price corresponds to Ethereum–fiat prices and gas fees for simple transfer transactions in May 2021. As smart contract transactions are significantly more expensive, this is a conservative estimation for the fees.

systems, but our results are extensible to other systems as well (such as Snow White [11] and Algorand [43]).

The construction does not change much from the proof-of-work case, so we only provide a sketch of the construction here. The smart contract remains identical, except for the moderately hard NP language describing the existence of a proof-of-work witness. More concretely, the problem instance x is now (ρ, sl, D, t) , where ρ denotes the randomness of the current epoch, sl denotes the slot during which block B (the most recently known stable block $\mathcal{C}[-k]$) was generated, D denotes the stake distribution during the current epoch, and t denotes the future time. While the proof-of-stake chains also enjoy the common prefix property, unfortunately, we cannot simply take any blockchain that has length t following B , because the adversary can create blockchains of arbitrary length. The proof-of-stake system ensures that such chains are not taken into account by checking that any blockchain received on the network does not contain blocks that were issued in future slots [38]. However, we cannot incorporate this check in the form of an NP language, as we do not have access to a clock.

Instead, we rely on a critical property of the proof-of-stake system that states that, in any consecutive $2k$ slots, at least $k + 1$ will be honestly allocated. Therefore, we reinterpret the parameter t to mean the *number of slots* after block B instead of the *number of blocks*. The witness w consists of two parts: *Block* data and *epoch* data. The block data contains a sequence $(\sigma_1, H_1, \pi_1, sl_1), (\sigma_2, H_2, \pi_2, sl_2), \dots, (\sigma_d, H_d, \pi_d, sl_d)$ of signatures σ_i each with their corresponding slot sl_i , with $sl_i > sl$ and a proof of leadership π_i . As in the proof-of-work case, no transaction data is verified. The epoch data contains a sequence $(\rho_1, u_1), (\rho_2, u_2), \dots, (\rho_e, u_e)$ spanning all the epochs starting from the epoch of slot sl up until the epoch of slot $sl + t$. For each of these, the randomness ρ_j and evidence u_j of the multiparty computation leading to it (typically a collection of signatures) is included.

The relation \mathcal{R} polynomially verifies that all the signatures σ_i correctly sign their respective plaintext H_i , that the proofs of leadership π_i are correct, and that the evidence u_j for the randomness ρ_j of each epoch is correct. Critically, it also checks that, for every window of length $2k$ slots, at least $k + 1$ blocks have been provided.

This completes the basic scheme. We can improve upon this scheme by noting that blocks and signatures for everything but the most recent epoch are not necessary, as long as the randomness and its evidence for each epoch is given. This evidence can be made quite short using ATMs

schemes, in which the evidence consists of aggregate threshold signatures (c.f., [36]). In such an optimization, a constant amount of bits is required per epoch. Blocks only need to be presented for the last epoch in order to have better time granularity. However, here, too, some pruning can occur: It is sufficient that only $k + 1$ blocks and signatures pertaining to the most recent $2k$ slots of the most recent epoch are presented. The relation \mathcal{R} can then simply check the evidence for each epoch randomness, that the $k + 1$ signatures are correct, that they all fall within a $2k$ window, and that the slot during which the last such block was generated is t . Again, the witness encryption can be composed with a zk-SNARK to make the witnesses constant size.

Contrary to proof-of-work where the velocity of the chain is unknown, despite bounded, in the proof-of-stake case we have a much better grasp on how quickly the time t will be reached, as it is a slot number. While the adversary still enjoys some early leakage (k slots early), the timelocked data will be available at the prespecified time. In the proof-of-work case, it is possible that the blockchain growth rate will increase or decrease due to the stochastic nature of block production. As such, the proof-of-stake scheme is naturally fitting to the timelock problem.

7 Variable Difficulty Proof-of-Work

The proof-of-work OTP wallet just described is suitable for the *static difficulty* model in which the mining target T is not adjusted and remains constant. Real blockchain systems adjust their T parameter dynamically in every epoch, as discussed in the Preliminaries section.

The construction for the dynamic difficulty proof-of-work model is similar to the static difficulty proof-of-work construction, with a key difference in the NP language used for witness encryption. The key idea is that, instead of encrypting for a chain descending from B and consisting of t blocks in the future, we need to encrypt for a chain descending from B and consisting of blocks that have together accumulated a total of t difficulty. More concretely, the witness encryption problem statement $x = (B, t, T_0, r_0, \nu)$ contains B and t as before, but now also contains the term T_0 , the difficulty of the chain at the point when timelock encryption took place, the round r_0 during which the first block of the current epoch was generated, as well as ν , the position of block B within its current epoch ($\nu = (|C| - k) \bmod m$, where m denotes the fixed epoch length).

The format of the witness w is now a sequence of block headers in the form $\langle T_i, \text{ctr}_i, \text{tx}_i, H(B_{i-1}), r_i \rangle$, where ctr_i , tx_i and $H(B_{i-1})$ are as be-

fore, and, additionally, T_i is the individual block’s mining target and r_i is the round during which it was mined (following the notation of Garay et al. [28]). The relation \mathcal{R} checks that the witness provided forms a chain that begins at the last known stable block B , that every block satisfies the dynamic difficulty proof-of-work equation $H(B_i) \leq T_i$, and that difficulty has been adjusted correctly. Specifically, for the difficulty adjustment, it checks that for all $i \geq 2$, if $i - \nu \bmod m \neq 1$, then $T_{i-1} = T_i$ (ensuring difficulty was not improperly adjusted internally within the epoch of B or any subsequent epochs). It also checks that the rounds provided are increasing $r_i < r_{i+1}$, and ensures that the difficulty at the epoch borders $i - 1$, i with $i - \nu \bmod m \neq 1$ and $i > 1$ has been correctly adjusted by verifying that $T_i = \min(\max(T'_i, \frac{1}{\tau}T'_i), \tau T'_i)$, where $T'_i = \frac{r_{i-1} - r_{i-m}}{a} T_{i-1}$ is the unclamped target, and the term a indicates the expected block production rate of the system in rounds [28]. To achieve security with overwhelming probability, and not just in expectation, in κ , it is imperative that the τ bounds are also checked by \mathcal{R} (see Bahack [7] for more details on a tail attack). Lastly, the relation checks that the difficulty is sufficient, as required by the t parameter. To do this, the difficulty of each block in the witness is summed up to discover the cumulative difficulty of the fork, checking that $\sum_{\langle T_i, \dots, \dots \rangle \in w} \frac{1}{T_i} \geq t$.

Now that the precise NP language has been established, a couple of things need to be changed in our protocol. First of all, at the time the OTPs are generated, MAX_TIME no longer indicates the maximum lifetime of the wallet (in chunks of HOURLY_BLOCK_RATE blocks), but the maximum total *difficulty* accumulated during the lifetime of the wallet. So we rename it to MAX_DIFFICULTY. This parameter is sensitive in case the difficulty *increases*. Hence, the value must be *increased* sufficiently (at the cost of increased IPFS storage needs) to cover for all foreseeable difficulty adjustments for the expected lifetime of the wallet. One way to do this is to look at past difficulty adjustment trends and extrapolate them to the future for the number of years the wallet is to be usable. In any case, this prediction does not need to be perfect: In the unfortunate case that the OTPs are close to becoming exhausted, which can easily be observed by inspecting the chain as it evolves, the wallet can be sunset by moving the funds to a new wallet with a new lifetime.

Next, the value HOURLY_BLOCK_RATE no longer indicates the number of blocks generated in one hour, but the amount of difficulty that must be accumulated before the next OTP can be utilized. So we rename it to OTP_ROTATION_DIFFICULTY. This parameter is sensitive in case the difficulty *decreases*. Hence, this value must be *decreased* sufficiently (at

the cost of increased IPFS storage needs) to allow the user to spend as quickly as desired. As difficulty typically does not decrease, one way to do this is to look at the previous `HOURLY_BLOCK_RATE` parameter and multiply it by the current difficulty to obtain a lower bound for the future. If one can predict a lower bound for how much future difficulty increases, it is also possible to timelock encrypt with non-uniform difficulty: The difference in the difficulty used to witness encrypt two early consecutive OTPs can be smaller than the difference in difficulty used to witness encrypt two later consecutive OTPs. The precise mechanism to do this effectively depends on the cryptocurrency and empirical measurements.

Lastly, the smart contract must be modified in the security-critical line that ensures that t is sufficiently in the future. In the static difficulty, t counts the number of blocks (or slots in the proof-of-stake case), but here it is counting difficulty. Therefore, it cannot be compared to `block.number`, and the $2k$ delay (which also counts blocks) cannot be readily applied. Instead, we must use a new variable² `block.cumdiff`, the cumulative difficulty collected by the blockchain if all the difficulty from genesis to the current block is summed up. Additionally, the $2k$ factor must be weighted by the current difficulty $\frac{1}{\text{block.T}}$, where `block.T` indicates the mining target of the current block.

The argument for the correctness of the scheme and the security of the scheme remains the same. Some remarks about the security portion are in order. First, recall that any blockchain protocol does not accept blocks with timestamps in the future. In the static difficulty model, this was not important, but in the proof-of-stake and in the variable difficulty model, it is something to consider. In particular, for the variable difficulty case, if the adversary constructs blocks timestamped with future rounds, she can cause the difficulty to drop more than it would be possible in a real-world execution. However, this does not bless the adversary with more mining power. Additionally, such chains will not be mined on by honest parties (because they are considered invalid, as of yet), and so they will only be extended by the adversary. The effect is the contrary of a difficulty raising [7] attack: The total difficulty accumulated as the target difficulty is artificially decreased becomes concentrated to its expected value. Hence, the minority adversary, who does not win in expectation, has an even lower probability of accumulating the difficulty goal described

² This block property is not currently available in Ethereum Solidity, but it is available in web3 as `block.totalDifficulty`. It is an easily implementable solution, but can even be incorporated into a smart contract within the current infrastructure without any forks [35].

by x in this futuristic chain. Therefore, we shall not be concerned about this behavior.

The bounded delay model. The above high-level analysis, as well as the more detailed analysis of the static case in Section 5, was in the synchronous setting. However, all the proofs made direct use of high-level chain properties such as the common prefix property, safety, and liveness. The use of the rounds r_c , r_i , and r_z to split time into chunks in the proof of Lemmas 1 and 2 is material to the proof. However, these rounds are defined based on transaction broadcast events and lengths attained by local honest chains. In a setting where the parties incur an unknown bounded delay Δ (which satisfies certain conditions [26]), the properties of the chain still hold, albeit with worse parameters k and ℓ , and the same security proof remains valid.

8 Discussion

Having completed the presentation of our schemes, we now discuss a couple of shortcomings and advantages of our scheme that differentiate it from previously known solutions.

A bounty for the miners. In our analysis, we have considered a rational adversary who is only allowed to allocate her capital into taking guesses for the user passwords and OTPs and holds a minority of the adversarial power. This worldview is slightly myopic. An adversary with a large capital operating in an open world can also use this money for other purposes such as bribing miners. In fact, let us take a step back and reconsider the *honest majority* assumption of the chain which allowed us to conclude that the properties of common prefix, safety, and liveness hold. What if the miners are not honest, but rational, instead? In this case, the properties do not hold (it is known that the honest protocol is not a Nash equilibrium [25], although it may be close to it [37]). In our case of keyless wallets, the wallet functions as a *bounty* to the miner who creates a long chain fork: If an adversary can violate the common prefix property, then she can, as far as the chain is concerned “go back in time.” In such an attack, after the secrets become timelock decryptable, the adversary creates a long chain reorganization and resubmits the correct guess to the wallet. As the reorganization was long, the delay check in the smart contract succeeds and the trial is correctly committed to the chain, granting the adversary the prize. This can be dangerous.

However, It can be argued that such bounties can be created by the adversary herself: If she double spends her money, she creates an incen-

tive for herself to go back in time and reclaim it. But there is a crucial difference: The adversary can only spend her own money in the double spending case. Namely, although in a double spending case, the party receiving the money was harmed by the chargeback, it is the adversary’s money that is being double spent, not someone else’s. There is another critical difference here: While a single adversary can create such bounties for herself, keyless wallets are *universal* bounties claimable by any miner. We remark, however, that a double spending adversary can twist the double spending attack in a way that makes it a universal bounty: The adversary first creates a legitimate transaction spending some of her own money and receives, say, fiat money in exchange. She then creates a double spending transaction in an alternative fork: That double spending transaction pays 50% of her money to herself, and the rest to the miner who confirms the given block. In this case, all miners are incentivized to confirm this transaction and fork.

Therefore, we argue that the existing blockchain systems are not very different in the way incentives are aligned as compared to our proposed wallet. Nevertheless, as highlighted in the analysis, the proposed wallet does indeed have a different security model from a standard wallet: it is not purely cryptographic, but a cryptographic/cryptoeconomic hybrid. A quantified analysis of the (ir)rationality of conducting a common prefix attack is explored by Bonneau et al. [12].

Temporary dishonest majority. Our analysis assumed adversarial minority throughout the execution. However, this may not necessarily be the case. Blockchains have faced situations where the adversarial power has temporary majority spikes, even though the adversary generally controls only a minority [4,6]. One of the arguments protecting from double spending stems from the ability of the user to set their own local k parameter when they consider which transaction to accept as confirmed. The parameter k is not a global parameter of the system, but it can be set by each user individually at the time of payment. If there are rumours or evidence that the chain may be under attack, the user can delay accepting payments. This is not the case for our protocol. While the user can set the critical $2k$ delay when instantiating the contract, and this is a local choice, this choice cannot be changed later. If an adversary attains majority after the contract has been instantiated, she will be able to roll back the chain sufficiently to steal the user’s money. This limitation of the system must be taken into account when deciding about the k parameter of the wallet: The parameter must not only withstand current adversarial bounds, but adversarial bounds through the lifetime of the

wallet. One mechanism to deal with this issue is to migrate from a wallet with a small k to a different wallet with a more conservative value when evidence appears that the chain may become attacked in the near future. If the blockchain network cannot be trusted to maintain honest majority, and the adversarial majority spike length is unpredictable, the money cannot be left and forgotten as in a key-based wallet.

Detectability of brute force attacks. One of the advantages of our system is that brute force attacks are not only economically infeasible, but they are also detectable. If an adversary submits a brute force attempt to the wallet, a *commit* transaction will appear on the chain that the honest user will see. As such, the user can decide to move their funds out of their wallet if they observe such behavior. This benefit stems from the fact that the brute forcing of user passwords and OTPs cannot be done offline, but must necessarily be made on the chain. Our rate limiting scheme is therefore not just enabling limiting, but also detection. It is the first scheme of its kind that works in a decentralized manner on-chain.

9 Conclusion

We have presented the first wallets that work securely without any private keys. We developed a password-based wallet with severe limitations: It could only be used once and at a predetermined maturity date. We then improved upon our first scheme by proposing an OTP wallet in which the user can provide an OTP from an air gapped device. We analyzed our scheme and proved it secure through a hybrid cryptographic/cryptoeconomic argument which may be of independent interest. The cryptoeconomic parametrization allowed us to set the OTP code to be quite short: Just 6 alphanumeric characters sufficed even for large capital of seven figures and with a very conservative economic margin of 90% capital loss for the adversary in expectation. Our calculations were also conservative with respect to current fees.

We finally extended our scheme to work in the proof-of-stake model, as well as the variable difficulty proof-of-work model. While timelock encryption using blockchain witnesses leveraging witness encryption has been described before, we are the first to extend it to proof-of-stake and to effectively use it for the variable proof-of-work case as well (previous considerations [40] considered the variable difficulty case, but did not account for the fact that the decryption time will be varying with the miner population adjustments).

As far as we know, our work is the first to build any useful protocol, and certainly to construct wallets, on top of timelock encryption and blockchains. We believe that timelock encryption and witness encryption is a promising cryptographic direction and, once established, will prove to be cornerstones of future protocol development for blockchains (and elsewhere). However, it remains to be seen whether a secure instantiation of these primitives will ever become practical.

Appendix

A Auxiliary Theorems

The following theorem establishes that chains cannot grow too quickly. It uses the notation adopted from the backbone series [27, 28].

Theorem 4 (Chain Growth Bound). *In a typical execution, consider a round r_0 during which the longest chain that exists on the network has a height of h_0 . Then at round $r_1 > r_0$, let h_1 denote the height of the longest chain that exists on the network. The chain cannot grow too quickly:*

$$\Pr[h_1 - h_0 > (1 + \epsilon)(r_1 - r_0)ng \frac{T}{2^\kappa}] \leq \exp(-\Omega(\kappa(r_1 - r_0)))$$

Proof. Let us consider the case where the adversary uses all her queries (if the adversary does not use all of her queries, we can force her to do so at the end of her round and ignore the results). Then there will be ng queries per round in total, and $(r_1 - r_0)ng$ queries across all the rounds in $r_1 - r_0$. In typical executions, the longest chain on the network can only grow if a query is successful. The probability of success of a query is $\frac{T}{2^\kappa}$. The random variable $h_1 - h_0$ is hence upper bounded by a Binomial distribution with parameters $\frac{T}{2^\kappa}$ and $(r_1 - r_0)ng$, which has expectation $(r_1 - r_0)ng \frac{T}{2^\kappa}$. Applying a Chernoff bound with error ϵ , we obtain the desired result.

We include the Chernoff bound, referenced at a high level throughout this paper, for completeness.

Theorem 5 (Chernoff bounds). *Let $\{X_i : i \in [n]\}$ are mutually independent Boolean random variables, with $\Pr[X_i = 1] = p$, for all $i \in [n]$. Let $X = \sum_{i=1}^n X_i$ and $\mu = pn$. Then, for any $\delta \in (0, 1]$,*

$$\Pr[X \leq (1 - \delta)\mu] \leq e^{-\delta^2\mu/2} \text{ and } \Pr[X \geq (1 + \delta)\mu] \leq e^{-\delta^2\mu/3}.$$

B Variable Difficulty Algorithms

The algorithms for the variable difficulty OTP wallet appear in Algorithm 5 and 6.

Algorithm 5 Hours of Horus in variable difficulty.

```
1: contract OTPWallet
2:   BLOCK_DELAY  $\leftarrow 2k$ 
3:    $r \leftarrow \perp$ ; spent  $\leftarrow \emptyset$ ; commitments  $\leftarrow \emptyset$ 
4:   function construct( $\bar{r}$ )
5:      $r \leftarrow \bar{r}$ 
6:   end function
7:   function commit( $z, t$ )
8:     require( $t > \text{block.number} + \text{BLOCK\_DELAY}/\text{block.T}$ )
9:     commitments[ $z$ ][ $t$ ]  $\leftarrow \text{true}$ 
10:  end function
11:  function reveal(OTP, salt,  $\alpha_{\text{to}}$ , amount,  $c_t, w, t, \pi$ )
12:     $h \leftarrow H((\text{OTP}, \text{salt}, \alpha_{\text{to}}, \text{amount}))$ 
13:    require(commitments[ $z$ ][ $t$ ])
14:    require(MT.Ver( $c_t, t, r, \pi$ ))
15:    require(WE.Dec( $c_t, w$ ) = OTP)
16:    to.transfer(amount)
17:  end function
18: end contract
```

Algorithm 6 Interacting with variable difficulty Hours of Horus.

```
1: BLOCK_DELAY  $\leftarrow 2k$ 
2: seed  $\leftarrow \perp$ ;  $pk \leftarrow \perp$ ;  $c \leftarrow []$ ;  $B \leftarrow \perp$ 
3: upon initialize do
4:   seed  $\leftarrow \{0, 1\}^\kappa$  ▷ Seed is generated with high entropy  $\kappa$ 
5:    $B \leftarrow \mathcal{C}[-k]$  ▷ Latest stable block
6:   for  $t \leftarrow 1$  to MAX_DIFFICULTY do
7:      $\text{OTP}_t \leftarrow \mathcal{G}(\text{seed}, t)$  ▷ Time  $t$  OTP with low entropy  $\lambda$ 
8:      $x \leftarrow (B, \text{OTP\_ROTATION\_DIFFICULTY} \cdot t)$ 
9:      $c \leftarrow c \parallel \text{WE.Enc}(\text{OTP}_t, x)$ 
10:  end for
11:   $r \leftarrow \text{MT.build}(c)$ 
12:   $pk \leftarrow \text{OTPWallet.construct}(r)$ 
13: end upon
14: upon spend( $\alpha_{\text{to}}$ , amount) do
15:    $t_1 \leftarrow \lceil \mathcal{C}.\text{cumdiff} + (\ell + \text{BLOCK\_DELAY})/\mathcal{C}[-1].T \rceil$ 
16:   salt  $\leftarrow \{0, 1\}^\kappa$  ▷ Generate short-lived high-entropy salt
17:    $\text{OTP}_t \leftarrow \mathcal{G}(\text{seed}, t_1)$ 
18:    $z \leftarrow H((\text{OTP}_t, \text{salt}, \alpha_{\text{to}}, \text{amount}))$ 
19:   OTPWallet.commit( $z, t_1$ )
20:   wait until  $\mathcal{C}.\text{cumdiff} = t_1$ 
21:    $w \leftarrow \mathcal{C}\{B:\}$ 
22:    $\pi \leftarrow \text{MT.prove}(c_t, c)$ 
23:   OTPWallet.reveal(OTP $_t$ , salt,  $\alpha_{\text{to}}$ , amount,  $c_t, w, t_1, \pi$ )
24: end upon
```

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