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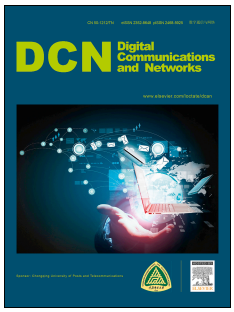


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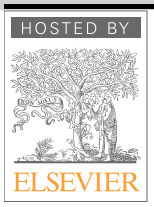
Digital Communications and Networks(DCN)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# Privacy preservation in permissionless blockchain: a survey

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## Abstract

Permissionless blockchain, as a distributed ledger, has gained considerable attention owing to its openness, transparency, decentralization, and immutability. Currently, permissionless blockchain has shown a good application prospect in many fields, from the initial cryptocurrency to the Internet of Things (IoT) and Vehicular Ad-Hoc Networking (VANET), which is considered as the beginning to rewrite our digital infrastructure. However, blockchain confronts several privacy risks that hinder its practical applications. Though numerous surveys reviewed the privacy preservation in blockchain, they failed to reveal the latest advances or cannot well review researches through comprehensive classification with unified criteria in privacy preservation of permissionless blockchain. Therefore, in this paper, we analyze the specific characteristics of permissionless blockchain, summarize the potential privacy threats to it, and investigate the unique privacy requirements of blockchain. Existing privacy preservation technologies are seriously surveyed and evaluated based on our proposed evaluation criteria. We finally figure out open research issues as well as future research directions from the perspective of privacy issues.



*KEYWORDS:*
Blockchain; Privacy; Cryptocurrency; Anonymity

## 1. Introduction

Blockchain, as the core technology of cryptocurrencies and various decentralized applications, has attracted considerable attention in both academia and industry. It is a distributed database or a public ledger of transactions that are shared among all participating parties. The security of blockchain relies on the underlying data encryption, time stamping, distributed consensus, and incentive mechanism, rather than a Trusted Third Party (TTP) [1]. It can solve the problem of trust establishment between nodes in the decentralized system through the verification and consensus mechanism, and thereby distrusted users can complete transactions or data exchange without a trusted third party. The emergence of Ethereum enables users to run smart contracts on the blockchain, thereby significantly expanding the scope of blockchain applications. Currently, researchers have applied blockchain in various systems, such as the Internet of Things (IoT) [2–4], Fog Computing [5], Vehicular Ad-Hoc Network (VANET) [6, 7], and smart city [8, 9], etc. [10–13]. In summary, blockchain has shown a promising prospect during the past years.

Blockchain can be roughly divided into permissioned blockchain and permissionless blockchain. Among them, permissioned blockchain only allows authorized entities to work as consensus nodes and access data in the blockchain. Differently, permissionless blockchain allows every entity join and leave freely [14]. Besides, data in the permissionless

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blockchain is transparent to all entities for public verification. Compared with permissioned blockchain, permissionless blockchain faces more risky privacy issues since in the permissioned blockchain, it is easier to ensure privacy with access control. For the permissionless blockchain, though the openness and transparency of the permissionless blockchain help improving its trust, the disclosure of transaction content may lead to crucial privacy leaks, especially when it applied in scenarios like Mobile CrowdSourcing (MCS) and the Internet of Things (IoT), where transactions may contain sensitive information of users. Apart from direct privacy leakage, attackers can track the transactions of a user through its address, analyze the transaction rules, obtain the association between the user transaction addresses, and infer its true identity with external information of the network [15]. Even worse, the transparency of permissionless blockchain may result in misuse of user data. For example, competitive enterprises or individuals can benefit from analyzing the transaction data or obtain sensitive information of users like user habit. Therefore, permissionless blockchain confronts significant privacy risks, which greatly limits its practical application.

However, privacy preservation in the permissionless blockchain is not trivial [16]. Different from centralized systems, permissionless blockchain is an open and decentralized system that lacks a powerful authority for system maintenance and privacy insurance. As a result, traditional privacy solutions are not applicable in the blockchain. Besides, the openness of the permissionless blockchain makes it easier for an attacker to intrude the system and compromise a number of nodes. Additionally, most of existing permissionless blockchain systems suffer from low efficiency, high communication overhead, low throughput, and high confirmation latency[17]. Even the latest consensus mechanisms, e.g., Algorand [18] Bitcoin-ng[19], significantly improve the performance of permissionless blockchain, the throughput still cannot support computationally expensive cryptographic operations for privacy preservation. Therefore, it is challenging to achieve practical privacy preservation in permissionless blockchain systems.

To assist future works in the privacy preservation of the permissionless blockchain, we survey the privacy solutions published in high-level journals and conferences to trigger open issues and significant future research directions. For easy presentation, in our paper, we refer the blockchain to the permissionless blockchain. There have been some investigations into privacy issues in blockchain [20–24]. Feng et al. [20] provided a discussion on various privacy-preservation methods employed in blockchain along with preliminary knowledge of the technical background of these techniques, and proposed a list of future research directions. Yang et al. [21] gave a comprehensive technical survey and discussed the efficiency of various methods, which is a bit outdated. Conti et al. [22] reviewed the security and privacy aspects of Bitcoin-like systems, and discussed various threats to user security and transaction anonymity, which restricted the applicability of cryptocurrencies in real-world applications and services. In[23], Zhang et al. provided a technical survey of blockchain security-enhancing technology and insinuate some open challenges. Li et al. [24] systematically overviewed and analyzed the security challenges of blockchain. They also described and evaluated existing solutions that addressed some existing research problems and gave a list of open issues.

However, the development of blockchain itself and technologies for privacy preservation in blockchain is quite rapid, which makes these surveys cannot well reveal the latest research status or fail to review works with a comprehensive classification. For the emerging blockchain-based scalable payment methods, offchain payment channels, and blockchain-based computation platforms, smart contracts, there still lack a systematic survey to thoroughly discuss their privacy challenges and solutions. The concrete comparison of these surveys is demonstrated in TABLE 1. In summary, there still lacks a systematic survey on the latest advance of privacy preservation in the blockchain.

Different from the above studies,, this paper makes a comprehensive investigation and comparison of privacy preservation schemes in the blockchain based on a number of privacy requirements. Considering the fact that all the information in blockchain are delivered and recorded through transactions, and various decentralized applications are built upon the smart contract as the trusted computation platform, this work will focus on transaction privacy and smart contract privacy, which are two main privacy issues in blockchain systems towards practical applications. Problems that beyond these two aspects (such as privacy in the consensus process) are out of the scope of our discussion. We analyze the issues in blockchain according to its architecture, specific characteristics, and potential threats. We propose a series of evaluation criteria from the view of both privacy preservation and availability, which enable us to analyze the existing works systematically. Furthermore, we propose future research directions. Specifically, contributions of this paper can be summarized as below:

1) We summarize the system model and application scenarios of permissionless blockchain and analyze its unique characteristics.

2) Based on the characteristics of the blockchain, we analyze the privacy issues and then summarize the potential threats to privacy in the blockchain. A series of requirements on privacy preservation in the blockchain are proposed to evaluate existing privacy solutions.

3) We employ the proposed requirements as criteria to evaluate and compare privacy countermeasures published in influential journals and conferences. We

| | Investigation the Latest Works | Investigation of On-Chain Payment | Investigation of Privacy-Preservation of Off-Chain Channel | Investigation of Privacy-Preservation of Smart Contract |
|---|---|---|---|---|
| [20] | No | Yes | No | Yes |
| [21] | No | Yes | No | No |
| [22] | No | Yes | No | No |
| [23] | No | Yes | No | Yes |
| [24] | No | Yes | No | No |
| This work | Yes | Yes | Yes | Yes |

Table 1: Comparison with existing surveys

summarize the advantages and disadvantages of each work, based on which we propose unsolved open research issues, a series of future research directions, and provide instruction on future research for privacy preservation in the blockchain.

The rest of this paper is organized as follows. Section 2 outlines the basic architecture of the blockchain and summarizes its unique characteristics. Section 3 provides a detailed analysis of the privacy threats and privacy protection requirements in the blockchain. In Section 4, we divide the privacy preservation schemes into different categories according to their design goals and technologies used, and make a comprehensive analysis of the proposed requirements as evaluation criteria. Section 5 gives our summarization and the discussion of future research direction. Finally, Section 7 concludes this paper.

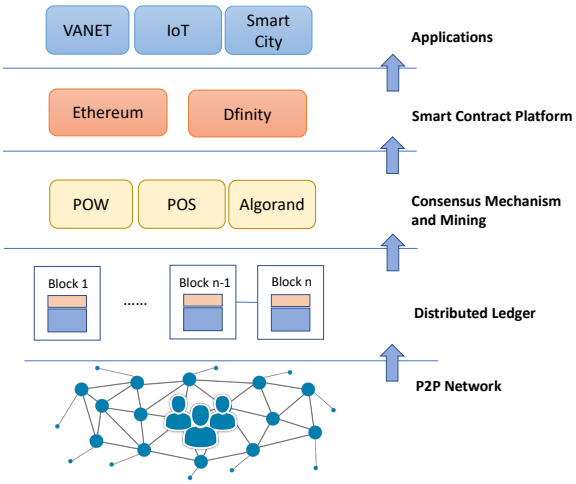


Fig. 1: Blockchain architecture

## 2. Overview of blockchain technologies

In this section, we present a basic introduction to blockchain, including its definition, development, application scenarios, and system model, and analyze its unique characteristics.

### *2.1. Introduction to blockchain*

This section presents the system model and the unique characteristics of permissionless blockchain.

#### *2.1.1. System model*

There are two types of nodes in a permissionless blockchain, i.e., miners and users, and every node can choose to be a miner or a user freely. The miners cooperatively maintain the blockchain system with the P2P network. In this paper, we adopt the system model composed of four parts, i.e., distributed ledger, consensus mechanism and mining, smart contract platform, and application, which is shown in 1.

**Distributed Ledger:** The distributed ledger is a decentralized database that records all blockchain data with a standard format and is maintained by all miners. It includes a series of blocks that are connected in the chain using the hash function. The blocks are organized in time order, and each block is identified with its hash value, called block address. Fig. 2 presents a typical block structure, consisting of a block header and a block body. The block header includes the current version number, the hash value of the previous block (i.e., block address), its own block address, the Merkle root hash, and the timestamp when the block is created. For Proof of Work (PoW)-based blockchain, it contains a nonce that proves the block is correctly generated. The block body includes all the confirmed transactions, which are permanently recorded in the blockchain. All transactions are organized using Merkle Tree [25] for efficient transaction querying and verification.

The miners are responsible to maintain the distributed ledger. They can access the data in the ledger and write data into it. However, before a piece of data is recorded into this ledger, its validity must have been verified and confirmed via the consensus mechanism. A user can access the data but can only write data into blockchain with the assistance of a miner.

**Consensus Mechanism and Mining:** A consensus mechanism is a fault-tolerant mechanism that enables multiple parties to achieve the necessary agreement on a single data value or a single state of the network[26]. It provides the core functionality to maintain the orig-

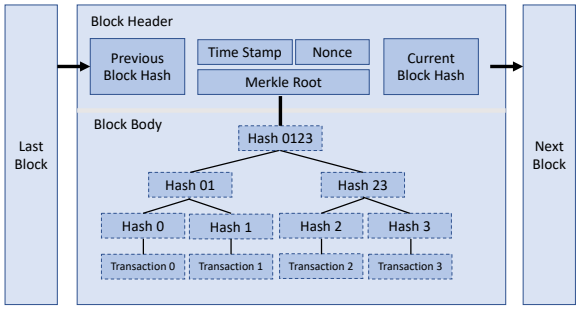


Fig. 2: Structure of a block

inality, consistency, and order of the blockchain data across the network. Mining refers to the process that miners reach consensus on a newly created block via blockchain, which provides liveness and safety.

Generally, a blockchain system such as Bitcoin is secure as its consensus model [22]. The security of consensus relies on the premise of honest-majority, namely the majority of consensus voting power is honest [27]. Some blockchains, such as Bitcoin [28] and Ethereum [29], include an incentive mechanism to motivate miners to create new blocks. The incentive helps improving the persistence of the blockchain, and based on game theory, it may also enhance the security of the blockchain.

**Smart Contract Platform:** A smart contract is a computer program running on the blockchain, which extends the functionality of the blockchain and enriches the application of the blockchain [30]. There are several definitions of smart contracts. For example, Szab [80] creatively proposed that "smart contract is a computable transaction protocol to execute contract terms"; Ethereum's smart contract [29]is a digital asset control program based on blockchain. In a narrow sense, a smart contract is program codes that involve business logic, algorithms, and program complex relationships among people, legal agreements and networks. In a broad sense, a smart contract is a kind of computer protocol that can realize self-execution and self-verification after its deployment.

The operation of smart contracts includes three procedures: contract generation, contract publishing, and contract execution. During contract generation, the contract participants in contract execution will negotiate to clarify the rights and obligations of the parties, determine the standard contract text, and then program them into a smart contract program. Usually, the contract program needs auditing for secure execution. In contract publishing, the contract generator signs the contract and requests a miner to record the signed contract into the blockchain. The contract execution is based on an event-triggered mechanism based on blockchain, which contains transaction processing and preservation mechanisms and is a complete state machine. To be specific, the external nodes can interact with a smart contract program by sending particular transactions. The transactions can change the status of the contract. All miners monitor the status, and once detecting its change, they execute the smart contract based on its design.

#### *2.1.2. Applications based on blockchain*

The distributed ledger and smart contract platform enable users to run various applications on top of the blockchain. Its decentralization greatly enhances the resistance to risk of single point of failure and security risks due to distrusted centralized parties. Therefore, blockchain-based applications quickly attract continuous attention in academia and industry and shows a promising application prospect. To better illustrate the potential applications of blockchain, we here list several typical applications of blockchain.

**Financial Applications:** The emergence of blockchain results in a great change in the business model of finance[31–33]. Blockchain can generate trust spontaneously in the decentralized system and can establish a financial market without a trusted centralized party, which is a revolutionary transformation for the business model of intermediaries such as payment service with third-party. Due to its transparency and irreversibility, blockchain technology is very suitable for financial applications such as cryptocurrency and P2P lending [34]. The use of blockchain smart contracts and alternative features can greatly reduce costs and improve efficiency, avoid cumbersome centralized capital settlement process, and achieve convenient and fast financial product transactions, which is currently an important driving force for research and investigation into blockchain from big companies.

**Digital Voting:** Voting is a representative application of blockchain in political affairs [35–37]. It can realize political election and corporate shareholder voting at a low cost. Blockchain-based voting can also be used for gaming, forecasting markets, and recommendations.

**Other Real-world Applications:** Blockchain achieves decentralized, data immutability, and trust. These features make the blockchain widely applicable to various types of data notarization and audit scenarios [38]. For example, blockchains can be permanently and safely store all kinds of licenses, registration forms, certificates, certifications and records issued by government agencies, and can easily prove the existence and certain degree of authenticity of a certain data at any time. Blockchain can also be applied into many decentralized scenarios such as clock synchronization scheme [39–41], mobile crowdsourcing [42], searchable encryption [43–45], secure storage system[46–49], energy trading [50], etc. [51, 52].

### *2.2. Unique characteristics*

Based on the system model and applications of the blockchain, we analyze the unique characteristics of the blockchain in this section.

#### 2.2.1. Decentralization and autonomy

Decentralization and autonomy refers to the system that contains no centralized party for maintenance and management. Each node can access and verify the entire database and its complete history, and jointly maintain the evolution of the system. The underlying consensus mechanism ensures blockchain's security and normal operation. The decentralizaton and autonomy of the blockchain help resist risk of single point of failure and privacy leakage due to distrusted authorities. However, it still incurs more privacy risks because the adversary can harm a group of miners more easily.

#### 2.2.2. Openness

Permissionless blockchain is an open system that every node can join and leave the network freely. The openness makes it possible to recruit numerous miners for the blockchain maintenance, and also allow adversaries more opportunities to intrude into the blockchain system.

#### 2.2.3. Non-repudiation

Non-repudiation of blockchain means (i) anyone cannot deny transaction contents created by himself; (ii) anyone cannot repudiate the transaction time generated by himself. Because of the characteristic of non-repudiation, as long as a transaction exists in blockchain, it must be initiated by its signer itself, and the node cannot deny that it has published this transaction.

#### 2.2.4. Verifiability and immutability

Verifiability and immutability means the validity of each transaction in blockchain can be verified and cannot be modified or removed from the blockchain. Since blocks recording transactions will be confirmed by all miners via the consensus mechanism, invalid transactions will not be recorded in the blockchain, and any modification on data in blockchain will be denied unless the adversary compromises the whole system. Additionally, blocks are organized in the form of the chain using the hash function, which makes any modification on data can be easily detected. This characteristic benefits security but also results in the problem that sensitive data cannot be removed from the blockchain.

#### 2.2.5. Transparency

Data in permissionless blockchain are transparent to all miners, and users can conveniently access on-chain data by querying miners. The transparency enhances data immutability and verifiability since all nodes can detect illegal data modification and illegal data. Nevertheless, the privacy leakage due to transparency becomes a crucial issue that dramatically limits the application of blockchain.

## 3. Privacy threats and requirements on privacy preservation in the blockchain

Based on the proposed system model and the analyzed characteristics of blockchain, we further define the security model and analyze the privacy issues in the blockchain. Besides, we summarize the potential threats to privacy in blockchain based on which we propose a series of requirements on privacy preservation in the blockchain.

### 3.1. Privacy issues in blockchain

#### 3.1.1. Transaction privacy

Data in blockchain are public to all, thus maintains information synchronization and reaches consensus among distributed nodes, which results in privacy risks. For one thing, transactions may contain sensitive information of its owner. With the popularity of applying blockchain in various scenarios, such as Mobile CrowdSourcing (MCS) and the IoT, direct privacy leakage due to transaction exposure becomes a crucial issue. Additionally, the disclosure of transaction content may also confront indirect privacy leakage. For example, by analyzing the transaction graph, adversary can obtain the correlation between transaction addresses and infer the user's real identity with extra data, which seriously threatens the users' privacy. Therefore, the blockchain system should pay more attention to transaction privacy issues and improve privacy protection.

#### 3.1.2. Privacy of smart contract

Smart contracts inherit some undesirable blockchain properties. General smart contract requires every miner to execute every step of every smart contract, which needs the code and data of every contract to be public. Private information can not be preserved during the validation of state transitions via consensus. Therefore, existing smart contract systems thus lack data confidentiality (e.g., auction bids, financial transactions), which bring serious privacy problems.

### 3.2. Threat model

In our paper, we adopt the treat model, that is, the blockchain system contains no fully trusted party. Both miners and users are rational and behave based on the information recorded in the blockchain and their own benefits. We consider an adversary that can compromise an arbitrary set of miners or users. However, it cannot break the security of the blockchain system. Aiming at disclosing the privacy mentioned above, we summarize several number of potential attacks that may be conducted by the adversary as follows.

*3.2.1. De-anonymization and tracking*

In the blockchain, users usually use hash values of randomly selected public keys as identifiers to hide their real identities. However, it is possible to disclose the users' real identities or track their activities by analyzing their transactions. Typically, Reid et al. [53] analyzed the input and output relationships in the trading network by constructing a payment linkage graph, and then aggregated multiple inputs to a single address to indicate that multiple-input transactions were generally initiated by the same owner signature. The user's public key and the information provided by the relevant website pose a threat to the user's identity privacy. For example, if a user purchased goods online using Bitcoin, the online store could access details such as the user's email address, shipping address, IP address, etc. [54].

However, it is not enough to only guarantee user identity in blockchain. For one thing, the blockchain is widely used in various applications, such as IoT, MCS, VANET, etc. In these systems, a transaction usually contains more information rather than the amount of coins only. In this case, attackers are able to infer the real identity of transaction generators by analyzing transaction content with some extra information. For another one, attackers can analyze the relationship between different transactions to obtain the linkage between them. In this way, attackers can track the activities of a single user.

Apart from identity inference with extra knowledge, more methods to inference identity and track user transactions are proposed. Meiklejohn et al. [55] used a clustering heuristic algorithm to cluster the addresses of the same user. They effectively marked each other's public key as a service provider by making actual transactions with a number of service provider websites and combined the addresses published in various forums and websites. Therefore, the service provider could be classified according to the marked public key, including the exchange, the mining pool, and so on. According to the service provider's public ledger information, the association of addresses in the ledger could be obtained, reducing user anonymity.

Ron et al. [15] analyzed the bitcoin system trading relationship through the Union-Find algorithm and associated each public key with a different address for 3730218 different public keys in the ledger. They finally obtained 2460814 different owners and speculated that there are many different exchanges, mining pools, etc. Koshy et al. [56] created a mapping from bitcoin addresses to IP addresses by analyzing bitcoin transaction information. By creating CoinSeer, a bitcoin wallet with data collection function, they collected and analyzed five months of transaction data, classifying different transaction relay modes, and finally analyzing three abnormal relay modes. They discovered the transaction originating nodes and created the mapping of addresses to IP addresses of bitcoins. This indicated that certain bitcoin address sets could only be de-anonymized by observing the transaction relay forwarding mode.

*3.2.2. Transaction flow leakage*

In the Bitcoin system, all transactions are open and transparent, and users can get full transaction content. The chain structure of the blockchain and the Merkle tree structure make every transaction of the system traceable. Bitcoin uses the Unexpected Transaction Output (UTXO) transaction mode. A transaction can have multiple inputs and multiple outputs. The current transaction input is the output of the previous transaction, and the current transaction output is the input for the next transaction. According to the correlation of the transaction address, an attacker can track the transaction and obtain the monetary flow. Some users do not want to disclose the transaction content to protect the transaction data.

At the Bitcoin trading website, detailed information about transactions associated with the public key address can be obtained based on the user's public key. Reid et al. [53] obtained the public key address of the user through the website such as Bitcoin Forum and Twitter, tracked the source and usage of the user's funds, and calculated the user's balance combining the knowledge of the monetary flow of the stolen address before and after the theft. Ober et al. [66] analyzed the bitcoin transaction topology map and observed the relationship between the number of active entities and the bitcoin exchange rate. Based on their study, the increase in exchange rate would increase the number of active entities. According to the transaction relationship graph between the addresses, the authors discovered the quantitative relationship between the bitcoin trading system's dormant bitcoin changes in different periods.

*3.3. Requirements of blockchain privacy preservation*

In this section, we analyze the requirements of privacy preservation schemes for the blockchain.

**Transaction confidentiality**: Transaction confidentiality refers to that transaction content cannot be accessed by unauthorized entities. Permissionless blockchain usually allows everyone to access transactions in blockchain. Nonetheless, current blockchain is widely applied in various systems, where transactions may well contain sensitive data and cause direct privacy leakage. For example, the transaction records of users' shopping can reflect the user's consumption level, living status, etc. In practice, users wish to have the minimal disclosure of transactions and account information in the blockchain system. Therefore, it is necessary to take measures to limit the access of blockchain data.

**Anonymity**: As explained in [57], anonymity means that the subject is not identifiable within a set of subjects, i.e., the anonymity set. In the blockchain, we

refer anonymity to the fact that the adversary cannot distinguish specific individual from a set of real identities, whose size depends on the privacy preservation method. Anonymity is the basic requirement for identity privacy preservation, while the blockchain's transparency brings about many privacy issues in some scenarios, especially in financial field. Considering the increased attention of users to privacy, especially identity privacy, a practical privacy preservation scheme for permissionless should first achieve anonymity.

**Transaction unlinkability**: Different from anonymity defined above, users also require that the transactions related to themselves cannot be linked. A blockchain address is a pseudonym used by a user in the blockchain system. It usually works as the input account or output account of a transaction. The address in the blockchain system is generated by the user, which is independent of the user identity information. The user creates and uses the address. Third party participation is required. Therefore, the blockchain address has better anonymity than the traditional account number (such as bank card number). However, users may leak some sensitivity when using the blockchain address to participate in the blockchain service. Information such as the propagation trajectory of blockchain transactions at the network layer may be used to guess the true identity of the blockchain address. So unlinkability is important that we should consider.

**Efficiency**: Blockchain itself confronts severe efficiency problems like low throughput, and smart contract based on blockchain suffers from high computation overhead. Therefore, the privacy preservation schemes should not lead to the efficiency degradation of the blockchain system. A practical privacy preservation should achieve efficiency in communication, computation, and storage, and it is significant to ensure the efficiency to an acceptable level when designing privacy preservation schemes.

**Fairness**: The fairness in financial system measures the health of the system, which to be specific in the blockchain means that the interests of either party will not be damaged in the blockchain transaction. It is significant for users to believe that the privacy-preserving blockchain system they use can ensure the fairness, so it is an essential requirement that should be list here.

**Compatibility**: The compatibility measures the capacity of the methods applied in different systems. Bitcoin as the most famous blockchain system has been treated as a system that needs to be compatible with many projects, which also brings more users' acceptance to their works. Thus, whether the method can be compatible with bitcoin should a factor that we need to consider.

### *3.4. Criteria for evaluating schemes*

In this part, we will list a set of criteria and make a comprehensive comparison of privacy preservation techniques used in blockchain. Different type of techniques raises different features that need to be compared. We list the criteria below by which we will then evaluate the approaches we discussed in section 4.

**Privacy protection**: The privacy includes the anonymity of participants, the number of payment transactions, the input and the state of the smart contract. The concrete meaning depends on the categories of the privacy preservation methods.

**Compatibility**: Compatibility refers to the capacity of the approaches to be applied to different systems. Whether it is compatible with Bitcoin or Ethereum, blockchain privacy preservation methods affect the user's acceptance of this approach.

**Protection of coin theft**: For mixing services, the funds of payments held by users need to protect securely while using a mixer to pursue anonymity. Most of mixing services face the risk of coin theft while others are trying to avoid this problem. The degree of protection of coin theft varies based on protocols.

**Requirement of centralized party**: For mixing services, the central third party included in the scheme will bring some security problems, while other approaches can avoid this risk. So, this is a criterion that we need to consider.

**Requirement of mixing fee**: The mixing fee charged during the process of mixing will decrease the user experience without any doubt, which is also an important criterion.

**Anonymity set**: Anonymity set refers to the size of space from which the party's identity will not be distinguished, which measures the degree of the identity privacy preservation of the approach. The anonymity set varies when it comes to different approaches.

**Requirement for trusted setup**: For crypto-based privacy-preservation techniques such as zero-know proof may require a setup process whose security needed to be protected by a trusted execution environment or secure multiparty computation technique. The compromise of the trusted setup will ruin the security of the privacy preservation system of blockchain.

**Transaction size**: Transaction size refers to the average size of each transaction in the blockchain system. The much the transaction size the lower the blockchain performance. The use of crypto-based methods can easily incur a cumbersome transaction with additional protection, so the privacy guarantee and performance need to be balanced in practical use.

**Functionality**: For the methods to protect off-chain channel privacy, functionality means that the type of function of the underlying system architecture.

**Channel direction**: For the methods to protect off-chain channel privacy, channel direction refers to the support direction of the approaches. Payments can be conducted unidirectionally from payer to payee in unidirectional approach while bidirectional method support payment to each other in a single channel.

**Parties executing smart contract**: For the methods to protect off-chain channel privacy, the number and type of the parties that running the smart contract vary with the schemes. The more the parties needed to execute contract more computing overhead cased in progress, while also result in a low risk of single point of failure and a relatively high system stability.

## 4. Methods to protect privacy

In this section, we categorize all privacy preservation methods into two categories, i.e., transaction-related privacy preservation and smart contract related privacy preservation. Then we comprehensively analyze their advantages and disadvantages with the proposed evaluation criteria.

### *4.1. On-chain transaction privacy*

#### *4.1.1. Mixing services*

Transactions in permissionless blockchain are public to all. Therefore, an attacker can query transaction content (including transaction amount and transaction addresses of both payer and beneficiary) and infer the implicative information in each transaction. Therefore, the openness and transparency of permissionless blockchain can harm user privacy. One of the prominent solutions to this problem is mixing service. Mixing service was first proposed by Chaum [58] in communications, which have been integrated into the blockchain these years to alleviate the risk of de-anonymization by obfuscating inputs and outputs of transactions. Its main idea is to allow multiple users to jointly form a single transaction that includes a number of inputs and outputs. In this way, an attacker cannot link a transaction input with its corresponding output. Existing mixing services can be divided into centralized mixing and decentralized mixing based on whether a third party is needed. In this subsection, we analyze the mixing services of both the two categories.

*a) Centralized mixing*

In centralized mixing, a centralized party called mix server is responsible for generating the transaction that contains the inputs and outputs of all users. A simple example of centralized mixing is that all users transfer the bitcoins to the mixing server, and the server then transfer the bitcoins to the corresponding beneficiaries. The structure of a typical centralized mixing service is showed in Fig. 3. Generally, the user needs to pay a certain amount of coins to the mix server as a reward. This design is somehow effective to ensure anonymity. However, it faces crucial coin theft problem because users can hardly ensure the honesty of the untrusted central service. Therefore, employing a centralized server for mixing coins is not practical.

To mitigate the coin theft problem, Bonneau proposed the Mixcoin that was compatible with the Bitcoin [59]. Mixcoin achieved anonymous payment

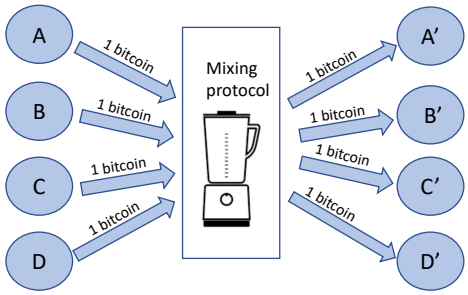


Fig. 3: Centralized mixing service

with the assistance of an accountable mixer, which was operated as follows. When a user sent a bitcoin to the mixer, he also got a signed warranty from the mix server, which served as a commitment to the fairness of the exchange. If the mixing server broke the mixing protocol, the sender could use the warranty to disclose the malicious behavior to reduce its reputation. Obviously, Mixcoin was effective to solve the coin theft problem only when the server was rational. Besides, the server was well aware of the transaction inputs and their corresponding outputs, and thus the mixing server could easily break the anonymity. Valenta and Rowan further optimized the centralized mixing service by using blind signature technology and designed Blindcoin [60]. Blindcoin could ensure that the third-party cannot establish the link between the input and output address of transactions while provides mixing service. It could prevent the third party from disclosing the transaction relationship of users and achieves full anonymity. However, as an extension to Mixcoin, Blindcoin also suffered from the coin theft problem and could only provide a limited security guarantee.

Unlike the above schemes based on a single fixed mixer, Dash [61] leveraged a set of mixer nodes called master nodes to offer mixing service. It was a digital currency platform with privacy preservation. In order to improve the anonymity of the transaction, Dash allowed a user to randomly select several master nodes for coin mixing, and thereby the association between the addresses kept invisible. In Dash, master nodes must pay 1000 Dash coins as a deposit in advance to provide mixing service, which increased the cost of protocol violation and mitigates the coin theft problem. Similar to Mixcoin, Dash only supported fixed denomination of payment and could not resist privacy disclosure due to inner attacks by malicious master nodes. Besides, the number of mixing participants was limited, which limited its application in the real world.

Coinswap [62] proposed by Maxwell was the first work that solved the coin theft problem. It utilized escrow transactions and fair exchange protocols to provide coin mixing service through an intermediary. The payment transactions were in the form of escrow trans-

actions and used two escrow protocols to guarantee that the payee received the money if and only if the mixer received money from the payer, all of which were protected by a fair exchange protocol. However, the multiple rounds of interactions between client and intermediary limited its performance in practice.

Heilman et al. [63] proposed an anonymous payment scheme that includes third parties. It offered two anonymous payment solutions, i.e., on-chain solution and off-chain solution. The on-chain solution introduced an untrusted intermediary between all payers and beneficiaries. Set anonymity was provided during each period when the protocol was running. That is, although the blockchain publicly displayed a collection of payers and beneficiaries at a particular time, no one could tell the payer that the payee had paid. The off-chain solution utilized a new payment method named the micropayment channel networks. This micropayment channel network paid through the preestablished path of the connected user. Therefore, the users participating in the path would know the transaction details, including the encrypted identity of the sender and the receiver. Introducing a semi-trusted third party could provide anonymity against malicious users while preserving user privacy from the outside world, but also result in an internal anonymity problem like most mixing service face.

The schemes mentioned above either failed to achieve payment fairness or could not well support anonymity. Besides, few of them could solve the privacy leakage problem due to inner attackers. Motivated by these challenges, Heilman et al. proposed a hybrid system named Tumblebit [64], which was built upon the Bitcoin system and thus achieves better security. Tumblebit merged the RSA puzzle and fair exchange techniques to build an anonymous and secure Bitcoin-based payment system via an untrusted intermediary, i.e., the tumble. The on-chain bitcoin payments were replaced with off-chain puzzle solving, which meant the beneficiaries should have the solution of the puzzle instead of only a specific secret related to his address. Two escrow transactions would be generated during one payment to ensure the fairness. The RSA puzzle was generated and solved during interactions between the payer, the tumble, and the beneficiary with the fair exchanged protocol to avoid violation. The anonymity of Tumblebit guaranteed no one could deduce the transaction linkability. However, if tumble colluded with the beneficiaries, it was easy to learn the real identity of the payer. Besides, Tumberbit supported neither payment values hiding nor bidirectional payment channel, which affected its availability in practice.

*b) Decentralized mixing*

Centralized mixing services mainly rely on a trusted or semi-trusted third party to mix the transaction sets of multiple users and output them to the corresponding addresses so that attackers cannot link the input and output addresses of the transaction. Effective as they are, they suffer from risk of single point of failure like most centralized systems. As a result, the alternative approach, i.e., decentralized mixing, have been quickly explored afterward, which benefits users since it needs no mixing fees. The structure of a typical decentralized mixing model is showed in Fig. 4.

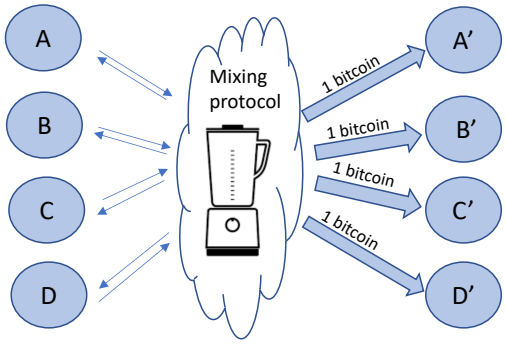


Fig. 4: Decentralized mixing service

CoinJoin [65] proposed by Maxwell in 2013 was one of the first decentralized mixing services, in which users could mix their coins in a self-organized way instead of relying on a third party. At the beginning of an epoch of mixing, a negotiation process would be conducted among a set of payers, which confirmed to whom they wish to make the joint payment. Then a transaction that contained all the input/output pairs was generated and checked by users to ensure their payment destination was properly encapsulated. It also achieved obfuscation by shuffling the addresses. If the transaction passed the verification by all the payers, they would sign the transaction jointly and finally published it via blockchain. Compared with centralized methods, CoinJoin significantly reduced the risk of deduction of transaction linkage due to outer/inner attackers and eliminates the problem of coin theft. However, there were still some shortcomings in the CoinJoin. During the negotiation process, the users participating in the coin mixing might discover the information of other clients. In addition, CoinJoin was vulnerable to the Denial of Service (DoS) attack. Specifically, any user in the mixing set was unavailable or abnormal, the whole mixing process would fail. Therefore, it suffered from low availability.

CoinShuffle [66] utilized a novel accountable anonymous group communication protocol named Dissent [67] to provide inner anonymity. All users in the mixing set conducted nested encryption on the outputs in a predetermined order using the public keys of other users. They shuffled the output addresses in order, and then the output address list was broadcasted to all participants. Each user checked whether the transaction contains his correct destinations and signs the transaction. The final transaction would be published

to the blockchain once all signatures were gathered. CoinShuffle ensured that no one could get the connection between the transactions even for the participants with the absence of a centralized party. However, all the participants needed to be online during the process of mixing. Similar to CoinJoin, CoinShuffle were also vulnerable to the DoS attack.

CoinParty [68] was a distributed hybrid technology based on Secure Multi-Party Computation (SMC). SMC enabled a set of parties to jointly generate a shared address without leaking their secret input. The new address would be set as a beneficiary address, and a threshold of signatures is needed to redeem the coin. However, its security required only to be guaranteed when more than 2/3 of the parties are honest, which did not hold in most scenarios.

Dining Cryptographers network (DC-net) protocol was proposed by Chaum [69] for mixing data senders' identity to realize anonymous communication, which supported multiple senders [70]. DiceMix [71], built upon the original DC-net protocol, was proposed to protect the sender's anonymity as a general decentralized mixing method. By using DC-net, it could break the connection between the payer address and beneficiary addresses. Besides, it significantly reduced the communication overhead of the DC-net, and meanwhile, it could resist malicious peers. In addition, based on the idea of CoinJoin and DiceMix, CoinShuffle++ deviated from DiceMix was a decentralized mixing protocol that was compatible with Bitcoin, which significantly reduced the communication bandwidth consumption and improved performance compared with original CoinShuffle. However, the anonymity set was still relatively limited.

*Comparison*

In Table 2, we compare all the works of mixing services based on criteria listed in section III to give a comprehensive overview.

#### *4.1.2. Ring signature & confidential transactions*

Ring signature was originally described in [72], and was a special group signature by which a user could anonymously sign a message on behalf of a group of users, including the actual signer. Compared with the group signature, there was no trusted center and no group establishment process. For the verifier, the signer was anonymous, and the verifier could not analyze its specific identity. A ring signature algorithm must satisfy following property: (i) Unconditional Anonymity: An attacker cannot determine which member of the ring was generated by the attacker, even if the ring member private key is obtained, the probability does not exceed 1/n. (ii) Correctness: The signature must be verified by everyone. (iii) Unforgeability: Other members of the ring could not forge the signature of the real signer. An external attacker cannot forge a signature for the message m even if he obtained a valid signature. Ring signature had a variety of applications into scenarios where the signer's identity needs to be preserved, such as anonymous authentication in the ad-hoc group [73] and cryptocurrency [74].

Ring signature is first applied in CryptoNote to hide the origin of transactions [74]. CryptoNote is an evolution of Bitcoin and can protect identity privacy of both payer and payee of a transaction. In CryptoNote, a transaction is signed and verified using ring signature, and verifiers can only ensure that its signer belongs to a specific user-set but cannot distinguish its real identity. For its payee, it can create a pair of unique one-time private and public key pairs with some randomness chosen by the payer and the payee's public address. To be specific, a payer generates an one-time key for each transaction, and only the payee can recover the corresponding private key. CryptoNote achieves that no third party can determine whether two transactions are sent to the same beneficiary, which results in the external invisibility of the beneficiary's address. To prevent double-spending attack due to unidentifiable payer, it leverages traceable ring signature [75] to trace the sender that try to sign twice on multiple transactions to spend the same coin.

Inspired by CryptoNote, several cryptocurrencies were developed based on a similar idea, of which the most famous one was Monero [76]. CryptoNote was based on Confidential Transaction proposed by Maxwell [77], which employed a commitment scheme to hide the amount of a transaction. Monero leveraged the ring signature and one-time unique address in CryptoNote to extend the Confidential Transactions [77] to Ring Confidential Transactions (RingCT) [76] for transaction confidentiality. RingCT introduced a Multilayered Linkable Spontaneous Anonymous Group signature to combine the Pedersen Commitment with ring signature. Owing to RomgCT, Monero achieved transaction uncorrelation and hidden transaction amounts. Specifically, it used ring signature and one-time address to break of the linkability between the input address and the output address in each transaction and Confidential Transactions to hide the amount. However, a recent study shows its anonymity can be broken probabilistically through deduction. Therefore, Monero cannot well ensure anonymity [78].

The original RingCT suffers from large transaction size, which is linear to the number of input addresses in an anonymity set. To reduce the size of the original protocol, RingCT 2.0 was proposed based on the Pedersen commitment, linkable ring signature, and accumulator with a one-way domain [79]. The accumulator can provide anonymity and transaction confidentiality, and meanwhile, it significantly shortens the size of each block. Since its construction fits perfectly into RingCT definition, it is compatible with Monero. Recently, RingCT 3.0 was proposed [80], it removes the trusted setup assumption and significantly reduces

| Proposals | Privacy Protection | Compatibility | Protection of Coin theft | Requirement of Centralized Party | Requirement of Mixing Fee |
|---|---|---|---|---|---|
| Untrusted central mixing service | No | Compatible with Bitcoin | No | Yes | Yes |
| Mixcoin [59] | External anonymity | Compatible with Bitcoin | Accountable | Yes | Yes |
| Blindcoin [60] | External/internal anonymity | Compatible with Bitcoin | Accountable | Yes | Yes |
| Dash [61] | External anonymity | Compatible with Bitcoin | Accountable | Yes | Yes |
| Coinswap [62] | External anonymity | Compatible with Bitcoin | Yes | Yes | Yes |
| Heilman's work [63] | External anonymity | Not compatible with Bitcoin | Yes | Yes | Yes |
| Tumblebit [64] | External/internal anonymity | Compatible with Bitcoin | Yes | Yes | Yes |
| CoinJoin [65] | External anonymity | Compatible with Bitcoin | Yes | No | No |
| CoinShuffle [66] | External/internal anonymity | Compatible with Bitcoin | Yes | No | No |
| CoinParty [68] | External/internal anonymity | Compatible with Bitcoin | Yes if 2/3 honest | No | No |
| CoinShuffle++ [71] | External/internal anonymity | Compatible with Bitcoin | Yes | No | No |

Table 2: Comparison of mixing services

the ring signature size, which makes it candidate to be next generation technology used in Monero.

*4.1.3. Non-interactive zero-knowledge proof*

Zero-knowledge proof, first introduced in the early 1980 [81], is a powerful technology that can be applied to privacy protection. A zero-knowledge proof is a method by which the prover can convince a verifier that a particular assertion is correct without leaking any useful information. The security guarantees are (i) Completeness: In case the statement being true, and both users follow the rules properly, then the verifier would be convinced that the statement is true. (ii) Soundness: If the statement is false, the prover cannot convince the verified that the statement is true in any scenario. (iii) Zero-knowledge: Nothing else should be leaked to the verifier. Both above need to hold with an overwhelming probability.

Zerocoin [82], proposed by Miers et al., was the first privacy-preserving payment scheme based on the Zero-Knowledge Proof of Knowledge (ZKPoK) [83]. It was an extension of Bitcoin and allows users to cast a bitcoin into a zerocoin for trading and redeem a zerocoin back into a bitcoin. When using zerocoins for trading, other users cannot obtain any trading information and can only check whether the zerocoin has been spent, which can break the linkability of transactions. Zerocoin employs ZKPoK to prove that a zerocoin originates from an unspent bitcoin, and it is computationally infeasible for any adversary to trace the zerocoin to its corresponding bitcoin. Based on Zerocoin, an enhanced Zerocoin (EZC) [84] was proposed, which is superior to Zerocoin since it can hide transaction amount and address balance, which is not supported by Zerocoin. Besides, a user must convert a zerocoin back to a bitcoin for spending, and then it only supports the conversion of a single bitcoin. Differently, EZC achieves spending zerocoins without converting them back to bitcoins and allows conversion of multi-valued zerocoins with values never revealed to any other party except for the payer and the beneficiary. Compared with Zerocoin, EZC achieves lower communication overhead. In summary, though Zerocoin effectively realizes anonymity, it can only mint and redeem fixed-denomination currency. Besides, because of the large proof size of the ZKPoK scheme, Zerocoin introduces additional blockchain storage and computing resources.

To overcome the weaknesses of Zerocoin, Miers et al. further proposed Zerocash [85]. This follow-up project of Zerocoin [82] was a full-fledged ledger-based digital currency with strong privacy guarantees that uses Zero-Knowledge Succinct Non-Interactive Argument of Knowledge (zk-SNARKs) [86] as the core technology. Compared with Zerocoin, Zerocash ensures the confidentiality of transaction amount and supports arbitrary denomination of payment. A user can mint coins of different denominations into multi-

ple coins of equal amount, each with its own amount, serial number, and so on. During the minting process of coins, a user needs to generate a commitment and adds it to the common commitment list. To transfer these coins a beneficiary, the user encrypts the transaction content (i.e., amount and the beneficiary's address) with the public key of the beneficiary and broadcasts the encrypted transaction to the entire network. After the beneficiary obtains the transaction content with the private key, it generates the serial number for these coins. When using zk-SNARKs to verify a transaction, a miner only needs to confirm that the validity of proofs provided by the transaction initiator. However, the miner is unable to distinguish the corresponding commitment, thus ensuring anonymity. Each coin is identified with a unique one-time serial number, which can effectively prevent double-spending attack. The utilization of zk-SNARKs remarkably improves the performance by reducing the proof size and verification time. Despite the excellent performance in privacy preservation and efficiency of Zerocash, its security requires a trusted setup process that determines the parameters of zk-SNARKs. If the adversary compromises this process, it can get the master for coin generation and break the security and privacy guarantees of Zerocash.

The shortcomings of Zerocash in performance and security motivate the emergence of more zero-knowledge proof-based privacy preservation schemes. Bulletproofs [87] was a powerful scheme that provides short and aggregated range proofs, which remarkably improves the performance of zk-SNARKs. It dramatically reduces the size of existing range proofs technologies and supports proof aggregation, which allows a user to prove multiple commitments with a single proof. It is possible that multiple parties jointly generate a single proof without revealing inputs via secure multi-party computation. Bulletproofs is currently the most efficient range proof that is promising to form a variety of decentralized cryptocurrencies and applications [88] [89].

*Comparison*

In Table 3, we compare all the works of crypto-based techniques based on criteria listed in section III in order to give a comprehensive overview.

### *4.2. Privacy preservation for off-chain payment channel*

Off-chain payment channel was introduced by Spilman [90] and has flourished as a promising approach to reduce payment delay and transfer fee in on-chain payment system. In a nutshell, a payment channel enables a payer and a beneficiary to establish a payment contract upfront through an online transaction that escrows funds temporarily, after which the payer and the beneficiary can keep track of the funds they owe each other and then locally agree on the new distribution of the deposit balance to update the contract. Payment channel avoids recording payments detail on the blockchain, and the final payments can be made instantaneously via a closing transaction.

Heilman's work in 2014 [63] was a pioneer of considering anonymity in the off-chain payment channel. A user willing to make a payment first needs to establish a payment path. Its weakness is that all users included in the path will obtain the identity information of payer and beneficiary. An improved approach includes a semi-honest intermediary to protect privacy from outer attackers. However, the introduced intermediary can link their transactions. Besides, it is not compatible with Bitcoin.

Green et al. proposed an anonymous payment channel scheme called Blot [91], in which users conducted most off-chain transactions based on Bitcoin-like cryptocurrency, such as Zerocash. Blot offers three modes of off-chain payment: unidirectional payment channel, bidirectional payment channel, and indirect payment channel. Transactions between users can be made directly through a secure off-chain channel or with the assistance of untrusted third parties. Bolt provides a way that a payer can create anonymous direct channel even if the beneficiary does not know the identity of the payer. The indirect payment channel uses blind signature technology and zero-knowledge proof to prevent the third parties from obtaining the user's transaction information. Besides, it utilizes the compact e-cash paradigm described by in [92] to guarantee a constant transaction size regardless of its volume. However, the third party's failures can cause monetary loss, and the strong privacy protection against an intermediary payment channel hub relies on the privacy property of the cryptocurrency it is built upon. Besides, a payer requires an existing long-lived relationship with an intermediate payment hub or the beneficiary for privacy-preserving payment, which may not be available in practice and cannot work well for those with limited bandwidth.

Tumblebit [64] is compatible with classical Bitcoin and allows for anonymous payment channels between distinct users, as already discussed in section 4.1. It does not support arbitrary denomination and payment value hiding. Besides, the collusion of the payee and the tumble will break the anonymity of a payer.

To eliminate the limit of throughput and the long-lived financial connections between parties, a privacy-preserving Payment-Channel Network (PCN) with multi-hop payments [93] was proposed, which allowed for payments between users that do not have a direct payment channel. Based on novel zero-knowledge proof system [94], it constructed a special-function smart contract to guarantee privacy properties that is able to resist curious users included in the payment path from the payer to the beneficiary. However, this work is inefficient since it needs to exchange a large amount of data between the users in the payment path, which degrades its performance.

| Proposals | Privacy Protection | Compatibility | Anonymity Set | Requirement for Trusted Setup | Transaction Size |
|---|---|---|---|---|---|
| CryptoNote [74] | Hiding addresses of participants | Not compatible with Bitcoin | Small | No | Small |
| Monero with RingCT 1.0 [76] | Hiding transaction amount, addresses of participants | Not compatible with Bitcoin | Small | Yes | Large |
| RingCT 2.0 [79] | Hiding transaction amount, addresses of participants | Not compatible with Bitcoin | Small | Yes | Middle |
| RingCT 3.0 [80] | Hiding transaction amount, addresses of participants | Not compatible with Bitcoin | Small | No | Small |
| Zerocoin [82] | Hiding addresses of participants | Not compatible with Bitcoin | Large | Yes | Large |
| EZC [84] | Hiding transaction amount, addresses of participants | Not compatible with Bitcoin | Large | No | Large |
| Zerocash [85] | Hiding transaction amount, addresses of participants | Not compatible with Bitcoin | Large | Yes | Middle |
| Bulletproofs based work [88, 89] | Hiding transaction amount, addresses of participants | Depends on protocols | Large | No | Small |

Table 3: Comparison of crypto-based techniques

*Comparison*

In Table 4, we compare all the works of privacy preserving off-chain channel based on criteria listed in section III in order to give a comprehensive overview.

### *4.3. Smart contract privacy*

As a decentralized computer program that runs upon the blockchain, the smart contract extends the function of blockchain beyond cryptocurrency. Because the entire process of contract execution is transparent to all and will be permanently recorded on the blockchain, smart contracts based on blockchain confronts serious privacy risks.

To address the privacy issues in the blockchain-based smart contract, Kosba et al. proposed the first privacy-preserving smart contract platform called Hawk [95]. It provides an easy way for developers to build a private smart contract without using any obfuscation techniques or code encryption. Hawk divides the smart contract into two portions: the private part and the public part. The private part is responsible for the secret data or functions involved in a contract and the public part is responsible for the public codes that can be transparent to external entities. The main protocol includes a particular party named the manager built with Intel Software Guard Extensions (SGX) to facilitate the execution the of private part. Owing to the data confidentiality property of SGX, the manager can obtain the private information and the entire sequence of transaction actions during contract execution but will not disclose it. If the manager aborts the protocol, it will be automatically financially penalized. Hawk leverages the zk-SNAKRs for guarantee of the correctness of funds' transfer and contract execution, which also results in a relatively high computational overhead. Besides Hawk requires the user to use a coin and cannot be deployed directly on most blockchain systems because of their low efficiency.

Cryptographic solutions usually result in significant performance degradation. Therefore, few of them can be applied directly in permissionless blockchain due to its limited capacity. In order to address this issue, some works employ secure hardware to protect privacy. ShadowEth [96] employed Trusted Execution Environment (TEE) for privacy-preserving smart contract on Ethereum. ShadowEth allows users to create bounty contracts that are executed within TEE and store all metadata in a TEE based off-chain storage system called TEE-DS. Ekiden [97] also leveraged secure hardware but further improves the efficiency and hence is highly performant. Ekiden is the first privacy-preserving smart contract system whose throughput exceeds a thousand transactions per second. By combing the trusted hardware and blockchain, Ekiden can be deployed into different blockchain systems (permissionless or permissioned blockchain). Since it operates computing nodes in off-chain TEEs, it avoids the long latency and high computational burden of the on-chain execution. The cryptographic verification process in Hawk is replaced by validating remote attestations to provide verifiable computation. Both the two schemes can solve the privacy issues and mean-

| Proposals | Privacy Protection | Compatibility | Functionality | Channel Direction | Disadvantages |
|---|---|---|---|---|---|
| Heilman's work [63] | External anonymity | Compatible with Bitcoin | Payment hub | Unidirectional | Need to assume the intermediary will not violate rules |
| Bolt [91] | Internal/external anonymity | Not compatible with Bitcoin | Payment hub | Unidirectional/ bidirectional | Privacy relies on underlying cryptocurrency |
| Tumblebit [64] | Internal/external anonymity | Compatible with Bitcoin | Payment hub | Unidirectional | Does not support arbitrary denomination and payment value hiding |
| Giulio's work [93] | Internal/external anonymity | Compatible with Bitcoin | Payment channel network | Unidirectional/ bidirectional | Need to exchange large amount of data |

Table 4: Comparison of privacy-preserving off-chain channel

while improve efficiency. However, the privacy preservation depends on the security of trusted hardware, and once the trusted hardware is compromised, these schemes will become ineffective.

To overcome the weaknesses of the above schemes, Arbitrum [98] relied on the Virtual Machine (VM) to implement the contract's functionality and simultaneously protect privacy. It allows a user to implement the private smart contract as a VM that encodes the rules of the contract. Arbitrum includes an incentive mechanism that encourages users to agree off-chain on the behavior of VM. As a result, the Arbitrum miners confirm the agreement by only verifying digital signatures. Unlike Ethereum, verifiers in Arbitrum can efficiently verify transactions without revealing any internal state of a VM and settle disputes about contract behavior with only examining one instruction for every execution of the contract. Therefore, it improves dramatically in privacy and scalability. However, its incentive mechanism is effective only if most managers are rational.

*Comparison*

In Table 5, we compare all the works of privacy-preserving smart contract discussed in this part.

## 5. Open issues and future directions

Based on the analysis and comparison result, we summarize the unsolved open issues in the privacy preservation of permissionless blockchain. Besides, we propose a series of future research directions.

### *5.1. Open research issues*

According to the above analysis and comparison in Section 4, we find several open unsolved issues in privacy preservation in permissionless blockchain.

First, in terms of performance, although many privacy solutions try to improve efficiency, the computation overhead is still quite high for a permissionless blockchain system. Many cryptographic tools, such as zero-knowledge proof, suffer from large transaction size and long transaction processing time, which makes these schemes not suitable for large-scale applications. Besides, it is not efficient to apply them into instant applications due to their long delay.

Second, existing works usually ignore the necessity of accountability and conditional traceability. Privacy protection grants user's freedom to make payments without being recognized by non-participants, which makes it possible to employ the blockchain to conduct crimes, such as drug/weapon trading. Therefore, it is necessary to disclose the real identity of malicious nodes in some cases. However, unlike centralized architecture, the permissionless blockchain lacks a powerful and trusted party to offer privacy insurance and meanwhile works as an arbitral authority. The decentralized architecture provides attackers with more chances and methods to conduct misbehaviors, and it becomes more challenging to solve the conflict between privacy and accountability. Nevertheless, existing works seldom consider this issue.

Third, as the most groundbreaking technology involved with the blockchain, the smart contract requires privacy preservation in many scenarios. Existing schemes either need to assume the security and trust of SGX or utilize heavy cryptographic tools with high computation/storage overhead. For SGX, its security cannot be fully ensured as claimed since there are already several works that effectively obtain the secret protected by it [99, 100]. Besides, the security of TEE's operation relies on the integrity of Intel, which introduces risk of single point of failure and is not suitable to the decentralization property of Blockchain. While as analyzed, cryptographic tools suffer from high computation or storage overhead and are not suitable for many applications. Therefore, the protection of smart contract privacy remains as an open issue.

| Proposals | Privacy Protection | Compatibility | Techniques Based | Parties executing smart contract | Disadvantages |
|---|---|---|---|---|---|
| Hawk [95] | Hiding transaction amount, identities of participants and contract input, state from non-participants | Not compatible with Ethereum | SGX ZK-SNARKs | Single SGX-enabled manager | Requires trusting the security of Intel SGX and issuer of the attestation keys (e.g., Intel), the supporting range of contract types is limited, and the size of proof limits its performance |
| ShadowEth [96] | Hiding contract input, state from non-participants | Compatible with Ethereum | SGX | Multiple SGX-enabled worker nodes | Requires trusting the security of Intel SGX and issuer of the attestation keys (e.g., Intel) |
| Ekiden [97] | Hiding contract input, state from non-participantsy | Not compatible with Ethereum | SGX | Multiple SGX-enabled compute nodes | Requires trusting the security of Intel SGX and issuer of the attestation keys (e.g., Intel) |
| Arbitrum [98] | Hiding contract state from non-participants | Not compatible with Ethereum | VM | Multiple nodes running VM | Require assumption that at least one manager is honest and the rest of the managers are rational |

Table 5: Comparison of privacy-preserving smart contract

### *5.2. Future research directions*

In this subsection, we suggest some future research directions based on the open research issues.

#### *5.2.1. Privacy preservation with high efficiency*

Privacy Preservation with high efficiency remains as an unsolved issue, which significantly constrains the practical deployment of blockchain. The limited computation capacity of blockchain makes it unable to conduct computationally expensive cryptographic operations. Besides, the schemes should also reduce the number of transactions recorded in blockchain to reduce expenses. Therefore, efficient privacy preservation schemes are highly expected. However, the decentralization, transparency, and inefficiency make it difficult to achieve efficient privacy preservation, which should be further explored in the future.

#### *5.2.2. Privacy preservation with accountability and decentralization*

Accountability is rarely explored by existing works. However, accountability is required by many application scenarios. It is necessary to disclose the identities of malicious users in the case that blockchain becomes a platform for crimes. Besides, some scenarios require trust evaluation on users or auditing on data, which is not supported by most privacy preservation. Obviously, accountability is conflict with privacy, and we should carefully trade off the accountability and privacy when designing a scheme with privacy preservation and accountability. Besides, blockchain lacks a powerful and trusted centralized party for privacy insurance. Achieving accountability with a centralized party or trusted hardware is easy but introduces risk of single point of failure. Considering the necessity of accountability and its challenges, decentralized privacy preservation with accountability would be a significant future research direction.

#### *5.2.3. Priavcy preservation for smart contract privacy*

The smart contract is the key technology to build various blockchain-based applications. It requires miners can verify the correctness of execution results of a contract, which makes preservation on contract privacy more complex. The contract itself and the data generated during contract execution should be kept inviable to all except the contract creators. Current schemes employ verifiable computing, SMC, or trusted hardware. As analyzed, they cannot entirely fit with blockchain since they are not efficient enough or rely on centralized parties. It is necessary to preserve contract privacy in a decentralized and efficient way to make it practical to be deployed in the real world.

## 6. Conclusion

The blockchain has been widely used in various fields because of its decentralization, data immutabil-

ity, and trust. However, transparency and decentralization make it difficult to protect user privacy effectively, which makes privacy preservation in blockchain an important research topic, especially for permissionless blockchain. In this paper, we first analyzed the privacy issues in permissionless blockchain and summarized the potential threats to privacy. We then proposed a series of evaluation criteria, with which we discussed the advantages and disadvantages of the state-of-the-art work. Based on the analysis and comparison results, we found serveralopen issues and proposed a series of future research directions, which can be helpful for research on practical blockchain systems with privacy preservation.

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# Conflict of Interest

We claim that we have no conflict of interest with other researchers with regard to the paper:

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