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# Extras and Premiums: Local PCN Routing with Redundancy and Fees

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**Abstract.** Payment channel networks (PCNs) are a promising solution to the blockchain scalability problem. In PCNs, a sender can route a multi-hop payment to a receiver via intermediaries. Yet, Lightning, the only prominent payment channel network, has two major issues when it comes to multi-hop payments. First, the sender decides on the path without being able to take local capacity restrictions into account. Second, due to the atomicity of payments, any failure in the path causes a failure of the complete payment. In this work, we propose **Forward-Update-Finalize (FUFi)**: The sender adds redundancy to a locally routed payment by initially committing to sending a higher amount than the actual payment value. Intermediaries decide on how to forward a received payment, potentially splitting it between multiple paths. If they cannot forward the total payment value, they may reduce the amount they forward. If paths for sufficient funds are found, the receiver and sender jointly select the paths and amounts that will actually be paid. Payment commitments are updated accordingly and fulfilled. In order to guarantee atomicity and correctness of the payment value, we use a modified Hashed Time Lock Contract (HTLC) for paying that requires both the sender and the receiver to provide a secret preimage. FUFi furthermore is the first local routing protocol to include fees and specify a fee policy to intermediaries on how to determine their fair share of fees. We prove that the proposed protocol achieves all key security properties of multi-hop payments. Furthermore, our evaluation on both synthetic and real-world Lightning topologies shows FUFi outperforms existing algorithms in terms of fraction of successful payments by about 10%.

## 1 Introduction

Payment channel networks (PCNs) enable blockchain scalability by increasing the throughput of transactions and reducing latency, and fees [14]. They move payments off-chain, i.e., not all payments have to be included in the blockchain. Thus, they do not require that every payment is broadcast to all participants and verified by them.

Two parties fund a payment channel by depositing coins into a joined account using a blockchain transaction, and then they can make direct transactions in the channel [4]. Opening such a channel only pays off for frequent transaction partners due to the need for the initial blockchain transaction. If a sender S wants to send funds to a receiver R without having a direct channel, they can route the funds via multiple existing channels. For instance if both S and R have a channel with P, P can act as intermediary. It is important that both the channel between S and P and the one between P and R have sufficient funds [17].

Designing routing algorithms to find sufficiently funded paths between senders and receivers successfully and swiftly is thus the key for a usable PCN. In the literature, there are two types of routing algorithms: source routing, in which the sender decides on the path, and local routing, where intermediaries decide on which neighbor they forward the payment to. Lightning, Bitcoin's PCN, uses source routing: The sender determines one path to the receiver based on a publicly available snapshot of the network topology [14]. However, the snapshot does not include the exact amount of funds available in each channel. So payments may fail due to channels in the path having insufficient funds.

There are approaches for the sender to split payments into multiple sub-payments, each routed via a different path [13,20]. Smaller payments are less likely to exceed the amount of available funds in a channel and congestion information can be utilized to determine the most suitable paths [20]. Yet, if only one channel in one path has insufficient funds, the payment fails. You can retry the payment using different paths and splits of the total payment amount but it might take a large number of tries until you find a distribution of funds on paths that works. Boomerang [3] adds redundancy to the payment, i.e., the sender initially sends more funds than the actual payment value. In this manner, some failures along individual paths do not result in the overall payment failing. If more than the payment value arrive at the receiver, they are returned to the sender.

Boomerang mitigates the lack of knowledge about local distributions of funds but does not fundamentally address it. In contrast, local routing protocols leave the decision of how to find a path to the intermediaries of a payment, who are clearly aware of the amount of funds in their channels [6,17]. However, failures are still possible if the routing ends up at a node that does not have any outgoing channels with sufficient funds. So, redundancy should be included here as well. Applying Boomerang is possible, however, it requires that the sender splits the payment whereas local routing protocols leave the splitting to intermediaries [6]. In addition, intermediaries typically receive a fee to incentivize participation. In source routing, the sender can compute the required fee as they know the path or paths but in local routing, the sender cannot know the fee in advance and it is challenging to find a suitable algorithm for fee computation. So, local routing due to its awareness of local constraints is more suitable for PCNs than source routing but the existing local routing algorithms are not useful in practice due to their lack of redundancy and incentives.

We here address both issues by presenting **Forward-Update-Finalize**(FUFi). We integrate fees into local routing by having the sender add a separate amount dedicated to fees to each payment, which they compute based on the expected number of intermediaries. Intermediaries know how much of the payment they receive is dedicated to fees and can then subtract an amount as their own fees. We suggest but do not enforce a policy on how to choose the amount, which provides more fees to the parties early on in the path who take a higher risk as they need to lock up funds for longer than parties close to the receiver. While we do not enforce the policy as such, taking more funds than suggested results in insufficient fees for successors on the path who then do not forward the payment. If a payment fails, no fees are paid, so nodes are disincentivized from deviating from the fee policy.

For redundancy in FUFi, the sender increases the payment amount by a factor  $r$ . Intermediaries may then reduce the amount they forward. Concretely, when an intermediary receives amount  $a$  to **forward**<sup>1</sup>, they determine a set of neighbors that can provide them with a path to the receiver. If the amount  $a$  can be split between these neighbors, the intermediary splits the amount  $a$ ; otherwise, a smaller amount is split. In the first phase of routing, only commitments are made to pay the respective amounts but payments and amounts are not yet finalized. Once sufficient funds reach the receiver, commitments are **updated** such that incoming funds (minus fees) at an intermediaries match the outgoing funds and any redundant funds are returned to the sender. In order to ensure updated commitments, parties are incentivized to revoke the old commitment as the alternative is a failed payment, which implies no fees. After the amounts are updated, the payments can be **finalized**. In Lightning, finalization means that the receiver reveals a hash preimage that allows them and all intermediaries to claim their funds. However, with redundancy present, a rational receiver should reveal the secret before updating to gain additional funds. To prevent this loss of funds, the sender needs to also provide a second hash preimage, which they only provide once all commitments are updated.

We prove that intermediaries do not lose any funds by participating in FUFi, the sender only loses the original payment value plus fees, and the payment terminates. Furthermore, the sender loses funds only if they obtain a signed receipt of the receiver. In turn, if the receiver provides a receipt, they are indeed paid. To show that FUFi indeed achieves better performance than state-of-the-art routing algorithms, we extend an existing payment channel network simulator. Our results on both real-world Lightning snapshots and synthetic topologies indicates that a redundancy factor  $r = 1.8$  achieves the best results. Furthermore, for such redundancy values, FUFi improves upon Boomerang and the local routing protocol Interdimensional SpeedyMurmurs [6] by about 10% in terms of fraction of successful payments.

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<sup>1</sup> so  $a$  is the amount after they subtracted their fees.

## 2 Background and Related Work

In this section, we first provide the necessary background on PCNs and the routing of the payments. Then, we discuss closely related works on routing protocols.

### 2.1 Payment Channel Networks

A payment channel allows two parties to exchange transactions without publishing them on the blockchain [9]. First, two parties open a channel by publishing a funding transaction on the blockchain. Then, they can send and receive coins by exchanging authenticated messages to update the channel state. Assume in a channel between  $v_1$  and  $v_2$ ,  $v_1$  contributes  $c_1$  and  $v_2$  contributes  $c_2$  coins. Then  $v_1$  can send up to  $c_1$  coins to  $P_2$  locally. After sending  $a$  coins,  $v_1$  can now still send  $c_1 - a$  coins but there are more coins available for  $v_2$ , mainly  $c_2 + a$ . We call  $c = c_1 + c_2$  the capacity of the channel. The balance in the direction of  $v_1$  to  $v_2$  is the maximum amount that can be sent by  $v_1$  and changes with every local payment. Later on, parties can close the channel by publishing the latest state of the channel on the blockchain. Disputes about the balance are also handled on the blockchain.

A payment channel network (PCN) allows parties (nodes) who do not have a direct channel (edge) to make payments by using the channels in the network. In such a *multi-hop payment* (MHP), the payment between the sender and the receiver is forwarded via a path of connected channels [2, 8, 12, 14, 23, 24]. The Lightning Network [14], a PCN on top of Bitcoin, realizes MHPs via Hash-Time-Locked-Contracts (HTLCs). A HTLC between a payer and a payee is defined wrt. a payment amount  $a$ , a hash value  $h$  and a timelock  $t$ , and implements the following two logical conditions:

1. If a value  $x$  is given such that  $H(x) = h$  (where  $H$  is a hash function), then the payee can claim the  $a$  coins.
2. If  $t$  has expired, then the payer can claim the  $a$  coins.

An HTLC-based MHP works as follows: First, the receiver chooses a random value  $x$  shares  $h = H(x)$  with the sender. Then, each channel on the path (from the sender to the receiver) locks coins wrt. hash condition  $h$ , corresponding payment value (plus fee), and a timelock. The first of two subsequent nodes on the path acts as the payer and the second as the payee for the HTLC. Once the last channel has locked coins, the receiver reveals the value  $x$  to the last intermediary in the path and claims the payment amount. The last intermediary shares the same  $x$  with the previous party and obtains the corresponding amount of coins in their channel. This continues until the sender has paid the first intermediary.

Routing protocols find a path between a sender and a receiver. In Lightning, the sender decides on the path based on snapshot of the network topology [21]. Apart from the nodes and edges/channels, the snapshot includes the following information per channel: the fee policy, i.e., how to determine the fee claimed by the nodes for a given payment value, the timelock  $t$  that the nodes in the

channel want to use for a HTLC, and the capacity  $c$ . Based on the provided information, the sender determines a least costly path. The cost function used to evaluate the cost of a path differs between Lightning clients [22].

We abstract payment channel functionalities through APIs. Possible realizations of these APIs are discussed in [6], including realizations that can be instantiated over Bitcoin. Different parties can call those APIs to communicate and make payments. We use four APIs for different events:

- *cPay* is called when a party wants to establish an HTLC with a neighbor. Unlike the HTLC of Lightning Network, two hashes are passed to cPay as our payments require both the agreement of the sender and the receiver to be finalized, as detailed below.
- *updateHTLC* is called when a party wants to modify the amount locked in a HTLC.<sup>2</sup> Modifying the payment amount can be necessary to remove redundancy after paths have been found.
- *cPay-unlock* is called when a party provides the two preimages of an HTLC and wants to unlock the funds in this HTLC.
- *refund* is used if the time-lock expires and a party wants to have their locked coins returned.

For simplicity, we denote the calling to an API as  $API \rightarrow F$  where  $F$  is a Turing machine that implements those APIs. Yu Shen’s master thesis [19] gives the formal descriptions of the APIs.

## 2.2 State-of-the-Art PCN Routing Protocols

To improve the success ratio of multi-hop payments, there have been several works that can be divided into two categories: splitting the payment amount [13, 20] with redundancy [3, 15] and local routing [5, 6, 17]. Here, we briefly explain the most important state-of-the-art protocols.

**AMP [13]:** The Atomic Multi-Path payment (AMP) protocol allows a sender to forward a payment through multiple paths to improve the success ratio of Lightning’s single-path HTLCs. Since the payment is divided into smaller amounts, the probability of having sufficient funds is higher for one channel. However, if any channel involved in the payment does not have a positive balance, the payment still fails.

**Boomerang [3]:** Boomerang extends the AMP protocol by adding redundancy to payments. Concretely, Boomerang makes  $k$  sub-payments of an equal amount  $b$  such that  $k \cdot b > a$  for payment amount  $a$ . Thus, even if some of the sub-payments fail, the amount reaching the receiver may still be sufficient. Boomerang ensures that receivers cannot claim more than amount  $a$ , i.e., any funds reaching the receiver that exceed  $a$  are returned to the sender. However, for

<sup>2</sup> We introduce *updateHTLC* API since FUFi allows parties to modify the locked amount in the update phase. The realization of *updateHTLC* can be done by simply revoking the existing HTLC while creating the new one in the same channel update.

the protocol to work, all sub-payments have to be of the same size and splitting can only be done by the sender, not by intermediaries.

**Spear [15]:** Spear, like Boomerang, integrates redundancy into source routing. It is more flexible than Boomerang as it can have sub-payments of varying amounts. Spear uses a modified HTLC to realize the redundancy of payments. Each HTLC has two hash conditions: one chosen by the sender and one chosen by the receiver. Spear still requires that the amount of each sub-payment and the path taken by the payment are fixed by the sender before starting the routing. We use the idea of the two hash conditions in FUFi but only require one hash from the sender for all sub-payments. By using local routing, we enable flexibility and allow parties to adapt the sub-payment amount.

**Spider [20]:** Spider splits a payment into small sub-payments at the source and forwards them separately. Rather than forwarding these sub-payments at once, a sender can forward them over a longer period of time. During this time, they react to feedback about congestion along the paths used to forward and adjust the rate using a waterfilling algorithm to balance between paths. Communication load and latency are drastically increased and the authors do not provide a concrete method on how to achieve atomicity, i.e., ensure that either all sub-payments are claimed by the receiver or all funds are returned to the sender.

**Ethna [5]:** Ethna is a local routing protocol that supports payment splitting without atomicity. Intermediaries can split a payment into sub-payments and forward them to different neighbors, and they can decrease the payment amount. In this case, the payment can still be partly completed with a smaller payment size. It is unclear which applications can profit from such partial payments as usually the full payment value is expected for a purchase. Furthermore, Ethna requires smart contract functionality that PCNs over Bitcoin, like the Lightning Network, do not provide.

**SpeedyMurmurs [17]:** SpeedyMurmurs is a local routing algorithm: It establishes spanning trees in a distributed manner. Intermediaries then locally determine which of their neighbors provide short paths to the receiver based on the spanning tree positions of the neighbors and the receiver. They forward to one neighbor that provides a path to the receiver and has a channel with sufficient balance. If no such channels exist, the routing fails. Splitting at the source is possible but not at intermediaries. The paper only focuses on the routing and does not specify the cryptography used to achieve atomicity.

**Splitting Payments Locally [6]:** Eckey et al. designed a protocol to enable intermediate nodes to split a payment and still achieve atomicity. They show how the protocol can be integrated into a number of routing protocols, including SpeedyMurmurs. For deciding how much funds to give to each neighbor they present two variants: SplitIfNecessary only locally splits payments if there is no single channel that can handle the payment. SplitClosest minimizes the path length and forwards as much as possible to the neighbor that is closest to the receiver, in terms of the path length in the spanning trees. In contrast to original

SpeedyMurmurs, the paper provides a cryptographic protocol to guarantee that payments are atomic and intermediaries do not lose funds. However, if only one of the split subpayments fails, the complete payment still fails.

### 3 Our Protocol

After specifying our system and threat model, we first present the protocol without fees. Afterwards, we show how to integrate fees into the protocol.

#### 3.1 System and Threat Model

Let  $V$  be the set of nodes in a PCN and  $E \subset V \times V$  be the set of channels. We model a PCN as a directed graph  $G = (V, E)$  with a capacity function  $C: V \times E \rightarrow \mathbb{R}$ . The function  $C$  returns the balance in a channel, i.e.,  $C(v_i, (v_i, v_j))$  gives the available coins of  $v_i$  in the channel  $(v_i, v_j)$ . We assume that there is synchronous communication and the protocol advances in rounds, which correspond to the maximal delay of communication. It takes at  $\Delta$  rounds to publish information (e.g., disputes) on the chain.

We assume a local internal active adversary, i.e., the adversary can compromise nodes in the network and adapt their behaviour arbitrarily. The attacker cannot observe and control the behaviour of uncompromised parties. They further do not control the network, e.g., they cannot delay messages of uncompromised parties to cause time-locks to expire. The set of corrupted parties is static during the execution of the protocol. The adversary is computationally bounded and hence cannot break cryptographic primitives.

We focus on a rational adversary that aims to gain funds through an attack. Thus, denial-of-service attacks where the adversary refuses to forward payments to undermine the routing without causing other parties to lose funds are not treated here. Such denial-of-service attacks have been evaluated in the context of local routing [25]. We furthermore assume that all parties communicate via secure authenticated channels.

#### 3.2 Security Goals

We now define our security goals. Concretely, we modify the security goals — balance security, bounded loss for the sender, atomicity, and finality — from [6] to include fees. Informally, balance security implies that no honest node, excluding the sender, loses funds during a payment. Bounded loss for the sender means that the sender loses at most the payment value plus any fees paid. Atomicity means that i) the sender only loses funds if they obtain a valid receipt in return and ii) the receiver only provides the sender with a valid receipt if they are paid. Last, finality states that the payment terminates.

The formal definitions of the above properties require us to first define the concept of a receipt formally. Note that in contrast to [6], in line with our “c-Pay” operation, two preimages are used for a receipt. Payments are routed from sender

S to receiver R. We assume a EUF-CMA-secure signature algorithm, which is given by a triple of algorithms  $(KGen, Sign, Verify)$  for key generation, signing, and verification, and a preimage-resistant hash function  $H$ .

**Definition 1.** *A receipt is defined as*

$$receipt(S, R, a, h_s, h_r) = Sign_{sk_R}(S, R, a, h_s, h_r) \quad (1)$$

where  $sk_R$  is the secret key of the receiver R with  $pk_R$  being the corresponding public key,  $a$  indicates the payment amount and  $h_s$  and  $h_r$  are two hash values. We define a validation function *validate* such that

$$validate(receipt(S, R, a, h_s, h_r)) = true \text{ iff}$$

1.  $Verify(pk_R, receipt(S, R, a, h_s, h_r)) = true$
2.  $S$  provides  $receipt(S, R, a, h_s, h_r)$ ,  $x_s, x_r$ , where  $H(x_s) = h_s$ ,  $H(x_r) = h_r$ .

In our security definitions, we look at the capacity function  $C$  before a payment is executed and the function  $C'$  after the execution of the payment. For clarity, we here assume that there are no concurrent payments that affect the function  $C$ . Our evaluation considers concurrency. Let furthermore  $B$  be the set of honest or benign nodes.

**Definition 2 (Balance security for intermediaries).**

$$\forall v_i \in B \setminus \{S\}, \quad \sum_{(v_i, v_j) \in E} C'(v_i, (v_i, v_j)) - \sum_{(v_i, v_j) \in E} C(v_i, (v_i, v_j)) \geq 0$$

**Definition 3 (Bounded lose for sender).** *For a payment of amount  $a$  with fee  $f$ : if  $S \in B$ , then  $\sum_{(S, v_j) \in E} C(S, (S, v_j)) - \sum_{(S, v_j) \in E} C'(S, (S, v_j)) \leq a + f$*

**Definition 4 (Atomicity).** *For a payment of amount  $a$ :*

1. *if  $\sum_{(S, v_j) \in E} C'(S, (S, v_j)) - \sum_{(S, v_j) \in E} C(S, (S, v_j)) < 0 \wedge S \in B$  then  $validate(receipt(S, R, size, h_s, h_r)) = true$*
2. *if  $validate(receipt(S, R, size, h_s, h_r)) = true \wedge R \in B$  then  $\sum_{(R, v_j) \in E} C'(R, (R, v_j)) - \sum_{(R, v_j) \in E} C(R, (R, v_j)) \geq a$*

**Definition 5 (Finality).** *The protocol terminates for all honest parties, i.e., on all locked channels, either “refund” or “cPay-unlock” is eventually executed.*

### 3.3 Protocol Description

The key idea of FUFi is to forward payments with redundancy and revoke those redundant payments later. For this purpose, we divide the protocol into three phases: Forward, Update, and Finalize. In the forward phase, sender and intermediaries split a payment into several sub-payments and forward them to neighbors until the receiver is reached. In the update phase, intermediaries and the receiver may modify the payment size. Only if the correct payment amount arrives at the receiver, the payment can go through. The update phase is the key difference

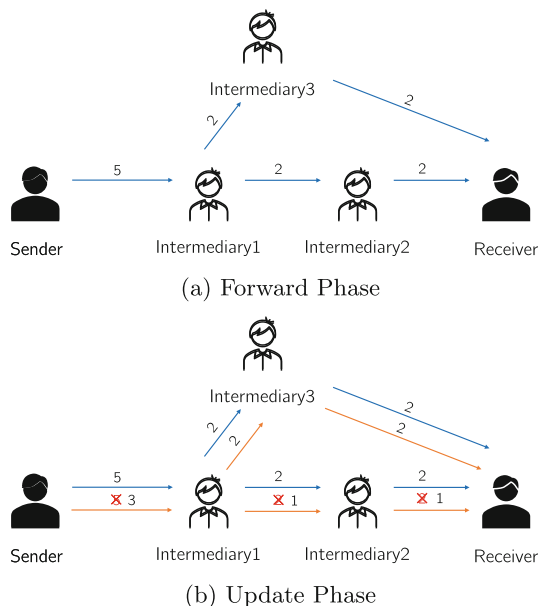
of FUFi to previous routing algorithms, as it enables the use of redundancy. The last phase, the finalize phase, completes the payment or revokes it. Figure 1 displays an example of the forward and update phase of FUFi, the finalize phase merely executes the red payments that are agreed upon during the update phase. We now go over each of the phases. Detailed pseudocode is given in Yu Shen’s thesis [19]. In the following, we refer to HTLCs for which a node is a payee as incoming HTLCs while outgoing HTLCs are those for which they are a payer.

*Initialization.* Before starting the actual routing, the sender  $S$  first uses a random value  $x_S$  and sends the hash  $h_S = H(x_S)$  to the receiver  $R$ . In response, the receiver chooses their own random value  $x_R$  and sends the corresponding hash  $h_R$  to  $S$ . Both preimages are necessary to obtain the funds promised in the HTLCs applied during the finalize phase. Afterwards,  $S$  decides on the amount they want to send, which is the payment amount  $a$  times a redundancy factor  $r$ . Once the amount is fixed, the actual routing of the payment starts.

*Forward.* During the routing, both sender and intermediaries have to decide which of their neighbours they forward sub-payments to. In [6], multiple methods are proposed for splitting the payment such that the combined amount of all sub-payments equals the total payment value. Since we include redundancy in our payment, FUFi can also proceed if the amounts of the sub-payments sum up to less than the total amount, as the total amount includes redundancy.

We abstract the splitting procedure as follows: A party  $P$  — sender or intermediary — calls a function  $Route_G(a_P, P, R, aux)$  where  $a_P$  is the total amount  $P$  wants to forward and  $aux$  is any auxiliary information the routing algorithm may require. For instance, Interdimensional SpeedyMurmurs requires the set of nodes that have previously been on the path to prevent routing loops.  $Route_G(a_P, P, R, aux)$  returns i) a set of tuples  $(e_j, a_j)$ , such that  $e_j$  indicates a payment channel adjacent to  $P$  and  $a_j$  the amount to be forwarded via this channel, and ii) an amount  $a_{Rest}$  that is not forwarded. We have  $a_{Rest} + \sum_j a_j = a_P$ , so the payment value is split over adjacent channels with a possible leftover. There are many possible instantiations for  $Route_G(a_P, P, R, aux)$ , some of which are introduced in Sect. 4 for our evaluation. The function is mostly identical to [6] but in [6],  $a_{Rest} = 0$  or the payment fails.

For each  $(e_j, a_j)$ ,  $P$  establishes a HTLC for the channel  $e_j$  by calling “cPay” stating that  $P$  will pay  $a_j$  if they receive preimages for  $h_S$  and  $h_R$  within a certain time. We will discuss how to choose the time-lock at the end of this section.  $R$  keeps track of all sub-payments that arrive. If less than the payment amount  $a$  arrives, the payment fails. After a HTLC timeouts, all involved parties call “refund” to have their invested funds returned. Otherwise, if enough funds reach  $R$ , the payment proceeds to the update phase.



**Fig. 1.** Forward and update phase of FUFi. Sender wants to make a payment of value 3 but initially sends 5 (blue). The first intermediary only forwards 4, split into two payments of 2. After 4 coins arrive at the receiver, one payment path has to be updated to only have 1 coin. Red indicates final payment after update. (Color figure online)

*Update.* The update phase, which is a new phase that none of the previous protocols have, has to deal with the fact that  $S$  in the end only agrees to paying  $a$  while initially sending  $r \cdot a$ .  $S$  thus only provides the preimage for  $h_S$ , which is necessary to complete the payment, if the HTLCs are updated such that  $S$  loses at most  $a$  coins.

At the end of the forward phase, let  $a + \delta$  coins being locked in  $R$ 's channels.  $R$  has to update the HTLCs such that only  $a$  coins are locked. They hence select HTLCs whose values are to be reduced. The HTLCs can also be completely cancelled. Any method of choosing which HTLCs to reduce or cancel can be applied as long as the final results restricts the incoming funds from the payment at  $R$  to  $a$ . For the HTLCs that should be changed,  $R$  calls "updateHTLC" to change the locked amount. One straight-forward method that we use in the evaluation is to simply keep the HTLCs that are established first.

Now, for the sender's outgoing HTLCs to have a combined value of  $a$  as well, intermediaries have to update their HTLCs. During the update phase, intermediaries check whether the funds they promise in their outgoing HTLCs, i.e., the funds they pay if the payment succeeds, is lower than the amount they are promised to receive from incoming HTLCs. The two may differ for two reasons: i) a successor updated one of the outgoing HTLCs and ii) they were unable to split the total incoming amount among their neighbors in the forward phase.

Independently of the reason, the intermediary updates their incoming HTLCs such that incoming and outgoing funds match. Like for the receiver, the exact protocol used to decide on which HTLCs to update does not matter for the protocol to work. Once the incoming and outgoing funds of all intermediaries match, the HTLCs of S should amount to exactly  $a$  because no funds are ‘lost’ to intermediaries.

The above protocol relies on the fact that intermediaries may not be willing to update the HTLC, an operation that requires the agreement of both payer and payee. In such a case, the funds are not reduced and the payment fails as the sender does not provide their preimage  $x_S$ . Intermediaries hence do not gain fees if they refuse to update. Note that they even receive fees if the HTLC is cancelled (e.g., modified to have an amount of 0), as we detail in Sect. 3.4.

*Finalize.* Once all the HTLCs are updated, the finalize phase completes the payment: S provides the preimage  $x_S$  to R. R then provides both  $x_S$  and  $x_R$  to resolve the HTLCs with their neighbors, which then forward the preimages to their predecessors on the path until all payments have been executed.

*Time-Locks.* Now, we can discuss the choice of time-locks. For HTLCs, we need to ensure there is enough time for honest parties to update payments and publish their HTLCs on chain in a dispute. It takes  $(\Delta + 1)$  rounds for an intermediary to know that its payment is published on chain by neighbours in the worst case. To get money back, this node needs another  $(\Delta + 1)$  rounds to publish the HTLC with its predecessors on chain. So, if we want to make sure honest nodes have enough time to publish their HTLCs, the difference of time-locks for subsequent nodes on a path should be at least  $2 \cdot (\Delta + 1)$ . Besides the time to publish HTLCs, there is also one round of communication for both establishing the original HTLC and possibly for updating it. Thus, the time-lock set by the sender should be  $t_0 + n \cdot (2 + 2 \cdot (\Delta + 1))$  where  $n$  is an upper bound on the expected number of nodes on a path, with  $n$  depending on the routing algorithm, and  $t_0$  is the current time.

### 3.4 Fees

In PCNs, nodes are incentivized by fees to participate. Yet, previous local routing protocols disregard fees and how to assign them [6, 17]. In the Lightning network, fees are computed in advance and added to the payment amount. However, the computation is only possible as the source decides on the path and knows the fee policies of all nodes. As the paths in local routing are determined by intermediaries, the exact fee cannot be computed in advance. In addition to this known challenge in local routing, FUFi suffers from a second challenge: nodes need to be incentivized to revoke their HTLCs. Such revocation fees need to be paid even if the receiver decides not to use a channel for routing as the nodes would otherwise refuse to revoke and let the payment fail.

We use a relatively simple idea for fees: The sender S decides on an amount  $f$  they are willing to pay as fees and then route the amount  $a + r + f$  consisting

of the actual payment amount, the redundancy, and the maximal fee. Intermediaries learn the amount  $f$  and can then decide how much they take as a fee. They forward the remaining fees to the subsequent nodes. If they take a large amount, subsequent nodes may refuse to route the payment due to insufficient compensation, meaning that greedy intermediaries may not receive funds due to the payment failing. Moreover, the more fee they take, the less likely the receiver will choose theirs in the case of receiving more than  $a$  amount.

Ersoy et al. [7] analyzed how to determine propagation fees for forwarding transactions in the Bitcoin network. Two requirements defined in their fee policy: i) nodes should not gain more fees by acting maliciously like introducing Sybil nodes, ii) rational nodes should benefit from forwarding. They showed that honest intermediary nodes are incentivized to claim a fraction  $C$  of the remaining fee that they receive, and the receiver obtains the remaining part. Here,  $C$  is a globally agreed-upon constant. Any remaining fees are taken by the receiver. We apply this fee policy in our evaluation.

Note that the previously discussed fees are only paid upon success. We now discuss the revocation fees. Revocation fees should not exceed the fees for a successful payment to prevent intermediaries from intentionally failing payments. We use a separate transaction with a new HTLC for the same two hash conditions to forward revoke fees. So, two transactions with different temporary secret keys are required for one sub-payment: one for the normal payment and the other one for revoking fees. With this construction, the transaction for revocation fees still exists after the revocation of a normal payment and the node can claim their fee once the preimages are revealed. If a party refuses to revoke, the payment amount exceeds  $v$  and the sender  $S$  does not provide their preimage, meaning that the party does not gain any fees, not even revocation fees.

We have now specified the phases of our protocol and how it handles fees. Yu Shen’s thesis shows that FUFi indeed achieves the claimed security goals [19]. In the security proofs, we prove termination separately for sender, intermediaries, and receiver. For balance security, we note that parties never promise to pay more than they are promised to receive and if they pay, they are also paid. Similarly, for bounded loss for the sender, we argue that the sender does not reveal their preimage unless the bounded loss is guaranteed. Atomicity is argued similarly to [6].

## 4 Evaluation

We simulate FUFi’s performance in a simulator by extending a known PCN simulator<sup>3</sup>. Our simulator<sup>4</sup> executes payments concurrently. We adapt routing algorithms from previous work to include an update phase and compute their success ratio.

<sup>3</sup> <https://github.com/stef-roos/PaymentRouting>.

<sup>4</sup> <https://github.com/tokisamu/PaymentRouting>.

## 4.1 Routing Algorithms

The performance of three different routing protocols is compared in our simulations. *SplitClosest* is a local routing protocol with splitting, introduced as a variant of SpeedyMurmurs [6]. It consumes channels’ capacities in the order of closeness to the receiver and has been shown to have the best success ratio of all the algorithms evaluated in [6].

A new routing algorithm has been designed for FUFi. Like SplitClosest, it is a variant of SpeedyMurmurs with splitting. It differs from SplitClosest in two aspects: i) it utilizes redundancy and fees as introduced in Sect. 3 and ii) it uses a waterfilling algorithm for splitting the forwarded amount between neighbors that offer a shorter path to the receiver. Concretely, a node splits the payment value to forward such that the available funds in the channels are as close to equal as possible. As stated in Sect. 3, parties may have to update incoming HTLCs. They choose the HTLC in order of arrival, i.e., they prioritise older HTLCs and revoke the ones most recently established. To determine the impact of each of the two changes i) and ii), we also consider SplitClosest with redundancy, i.e., only change i), and FUFi without redundancy, i.e., only change ii). As a third algorithm, we use Boomerang. It is a source routing algorithm with redundancy. In our simulations, we use the parameters that achieved the best performance in the original paper (100 sub-payments redundancy 1.33 [3]).

## 4.2 Setup

We evaluate the different routing algorithms on a snapshot of the Lightning network and a randomly generated scale-free graph. The Lightning Network snapshot is from December 30, 2021. We delete disconnected nodes and channels without capacity. Then, we obtain a graph with 18081 nodes and 76427 channels. To simulate the size of the Lightning Network in the future, we use the Barabasi-Albert (BA) model [1] to generate the topology of network. BA graph is a scale-free model that means only a few nodes have a high degree, similar to Lightning [16]. We use the BA graph to approximate Lightning in the future, with a larger network size, and generate a graph with 25000 nodes where each new node is connected to 6 existing nodes. Most of channels in the Lightning Network snapshot have a low capacity. To simulate the capacity distribution of the Lightning Network, we use an exponential distribution with an average value of 200 to generate channels’ balances in the random graph.

In our simulations, the delay of payment forwarding is set to 10s and  $C$  is set to 0.4. In [7],  $C$  is chosen in relation to the average degree of the nodes, which is 9 for the snapshot.  $C = 0.4$  has been identified as a good choice for incentivizing intermediaries to forward if the average degree is 9 or higher. For redundancy in FUFi, we consider 1.1, 1.4, and 1.8. In our first experiment, we change the payment amount and simulate 100000 payments in 1000s. We start from a relatively small payment amount that is smaller than a single channel’s capacity on average. To study the impact of payment splitting and redundancy, the payment amount is increased to a larger number that makes payment splitting necessary. For the random graph, the payment size varies from 50 to 400

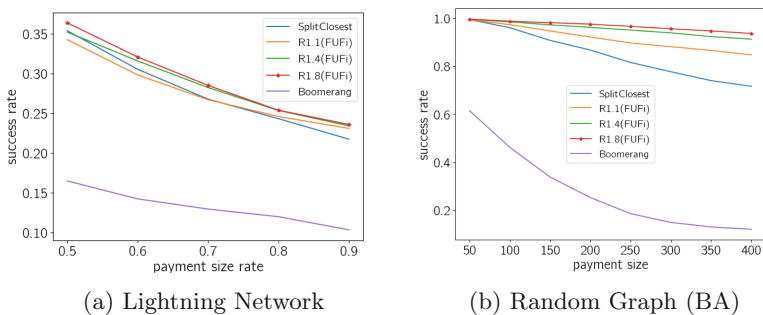


Fig. 2. Success rate with different payment sizes

because the expected capacity of a channel is 200. In the Lightning network, the capacity of channels varies a lot. Thus, using a constant payment amount frequently results in the payment amount exceeding the total capacities of outgoing channels of the sender, meaning that the payment fails in the first step regardless of the protocol. To exclude such unavoidable failures, we instead set a payment amount rate  $p \in (0, 1)$ . When a sender starts a payment, the payment amount is  $p$  times the combined balance.

In the second experiment, we simulate 300000 payments in 3000 s and monitor how the success rate changes over time. The payment amount rate of the Lightning Network is 0.8 while the payment amount is set to 400 in the random graph.

Finally, we have an experiment to measure the influence of redundancy and the waterfilling algorithm separately. In this experiment, the redundancy is set to 1.4, payment amount rate of the Lightning Network is 0.8, payment amount of the random graph is 400, and 100000 payments are simulated in 1000 s.

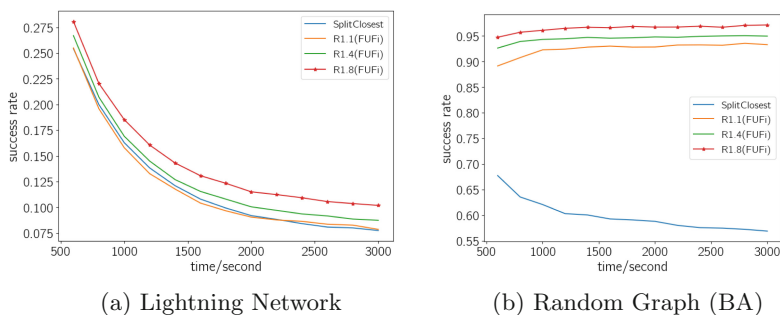


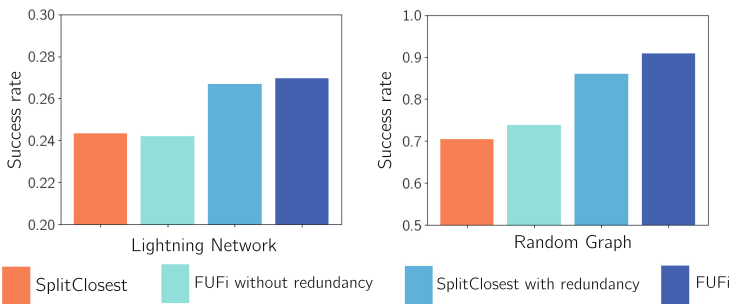
Fig. 3. The change of success rate over time

### 4.3 Simulation Results

Figure 2a and Fig. 2b show the success ratio of different payment amounts. In the Lightning Network, FUFi with 1.8 redundancy improves the success ratio of SplitClosest by about 10%. Boomerang is outperformed by other protocols because it uses a source routing algorithm that can not adapt to the changes of channels' capacities. This result shows the effectiveness of combining local splitting and redundancy. The result of the random graph is similar to the Lightning Network. However, the differences in performance between the protocols are more pronounced, which can be explained by the better connectivity of the random graph. Nodes have more choices to forward and hence the payment is less likely to fail.

Figure 3a shows the success rate over time, which decreases over time in the Lightning Network. However, FUFi's success rate is retained at a higher level than SplitClosest because of the use of waterfilling. SplitClosest tends to use up all the funds in channels to have short paths whereas waterfilling tries to balance the funds. For the random graph, there is no negative impact over time for waterfilling. The higher number of paths enables nodes to better balance their channels and hence avoid depletion, i.e., channels with no or hardly any funds on one direction. For SplitClosest, there still is a negative impact as it does actively deplete channels.

Figure 4 compares the impact of our two changes, with the result that redundancy has more impact than waterfilling, which has no significant impact on Lightning and a smaller impact on the random graph.



**Fig. 4.** Impact of redundancy in comparison to varying splitting protocol.

## 5 Conclusion

We have introduced FUFi, which increases the performance of local routing by about 10% and is the first local routing protocol for PCNs that integrates fees.

Yet, we mainly disregarded the aspect of privacy: Hiding the identity of sender and receiver as well as channel capacities are important privacy properties

for PCNs [11]. While Lightning was initially thought to be private, it has been shown that it is vulnerable to multiple attacks [10, 18]. The exact attacks are not possible for local routing; yet, it is likely that FUFi is vulnerable to similar attacks. In future work, we thus aim to investigate which privacy attacks are possible, how they affect FUFi, and how to defend against the attacks.

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