
**Blockchain and distributed ledger
technologies — Security management
of digital asset custodians**

iTeh Standards
(<https://standards.iteh.ai>)
Document Preview

[ISO/TR 23576:2020](https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020)

<https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>



iTeh Standards
(<https://standards.iteh.ai>)
Document Preview

[ISO/TR 23576:2020](https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020)

<https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>



COPYRIGHT PROTECTED DOCUMENT

© ISO 2020

All rights reserved. Unless otherwise specified, or required in the context of its implementation, no part of this publication may be reproduced or utilized otherwise in any form or by any means, electronic or mechanical, including photocopying, or posting on the internet or an intranet, without prior written permission. Permission can be requested from either ISO at the address below or ISO's member body in the country of the requester.

ISO copyright office
CP 401 • Ch. de Blandonnet 8
CH-1214 Vernier, Geneva
Phone: +41 22 749 01 11
Email: copyright@iso.org
Website: www.iso.org

Published in Switzerland

Contents

Page

Foreword	v
Introduction	vi
1 Scope	1
2 Normative reference	1
3 Terms and definitions	1
4 Abbreviated terms	2
5 Basic description of a model of online system for digital asset custodianship	3
5.1 General.....	3
5.2 Example of a system for digital asset custodians and its functional components.....	3
5.3 Examples of transactions.....	5
5.4 Description of keys used for signature and encryption.....	6
5.4.1 Type of keys.....	6
5.4.2 Flow for key generation and key usage.....	6
5.4.3 Using multiple keys.....	8
5.4.4 Suspension of keys.....	8
5.5 Characteristics of digital assets held in DLT / blockchain systems.....	8
5.5.1 General.....	8
5.5.2 Importance of signature keys.....	8
5.5.3 Diversity of implementations.....	9
5.5.4 Possibility of blockchain forks.....	9
5.5.5 Risks for unapproved transactions.....	10
6 Basic objectives of security management for digital asset custodians	11
7 Approaches to basic security controls	11
8 Digital asset custodians' risks	12
8.1 General.....	12
8.2 Risks related to the system / platform of the digital asset custodian.....	12
8.2.1 General.....	12
8.2.2 Signature key risks.....	13
8.2.3 Risks on asset data.....	16
8.2.4 Risks related to suspension of systems and operations.....	17
8.3 Risks from external factors.....	17
8.3.1 General.....	17
8.3.2 Risks related to the internet infrastructure and authentication infrastructure.....	18
8.3.3 Risks inherent to digital asset DLT systems / blockchains.....	18
8.3.4 Risks arising from external reputation databases and anti-money-laundering regulations.....	19
9 Consideration on security controls of digital asset custodians	20
9.1 General.....	20
9.2 Basis for considerations about security management.....	20
9.3 Considerations about security controls on digital asset custodians.....	21
9.3.1 Guidelines for the information security management.....	21
9.3.2 Information security policies.....	21
9.3.3 Organization of information security.....	21
9.3.4 Human resource security.....	22
9.3.5 Asset management.....	22
9.3.6 Access control.....	22
9.3.7 Security controls on signature keys.....	24
9.3.8 Physical and environmental security.....	28
9.3.9 Operations security.....	28
9.3.10 Communications security.....	30
9.3.11 Supplier relationships.....	32

9.3.12	Information security incident management.....	32
9.3.13	Information security aspect of business continuity management.....	32
9.3.14	Compliance.....	33
9.4	Other digital asset custodian system specific issues — Advance notice to user for maintenance.....	34
Bibliography		35

iTeh Standards
(<https://standards.iteh.ai>)
Document Preview

[ISO/TR 23576:2020](https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020)

<https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>

Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights. Details of any patent rights identified during the development of the document will be in the Introduction and/or on the ISO list of patent declarations received (see www.iso.org/patents).

Any trade name used in this document is information given for the convenience of users and does not constitute an endorsement.

For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see www.iso.org/iso/foreword.html.

This document was prepared by Technical Committee ISO/TC 307, *Blockchain and distributed ledger technologies*.

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found at www.iso.org/members.html.

<https://standards.iteh.ai/catalog/standards/iso/6474f0cc-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>

Introduction

A digital asset custodian holds customers' digital assets for safekeeping in order to minimize the risk of their theft or loss. This document illustrates the security risks, threats, and measures which digital asset custodians consider, design, and implement in order to protect the assets of their customers, based on best practices, existing standards and research. For example, the management of signature keys for digital assets requires special attention, taking into account the specific nature of blockchains and DLT systems and the security challenges they face. A key topic discussed is the appropriate management of signature keys by digital asset custodians in order to prevent misuse and transactions by unauthorized individuals.

iTeh Standards
(<https://standards.iteh.ai>)
Document Preview

[ISO/TR 23576:2020](https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020)

<https://standards.iteh.ai/catalog/standards/iso/6474f0ce-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>

Blockchain and distributed ledger technologies — Security management of digital asset custodians

1 Scope

This document discusses the threats, risks, and controls related to:

- systems that provide digital asset custodian services and/or exchange services to their customers (consumers and businesses) and management of security when an incident occurs;
- asset information (including the signature key of the digital asset) that a custodian of digital assets manages.

This document is addressed to digital asset custodians that manage signature keys associated with digital asset accounts. In such a case, certain specific recommendations apply.

The following is out of scope of this document:

- core security controls of blockchain and DLT systems;
- business risks of digital asset custodians;
- segregation of customer's assets;
- governance and management issues.

2 Normative reference

The following documents are referred to in the text in such a way that some or all of their content constitutes requirements of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

ISO 22739, *Blockchain and distributed ledger technologies — Vocabulary*

3 Terms and definitions

For the purposes of this document, the terms and definitions given in ISO 22739 and the following apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

- ISO Online browsing platform: available at <https://www.iso.org/obp>
- IEC Electropedia: available at <http://www.electropedia.org/>

3.1

digital asset custodian system

system that holds customers' digital assets for safekeeping in order to minimize the risk of their theft or loss

Note 1 to entry: In this document, holding assets is considered in a broad sense, as it includes for instance, the case of physically or digitally storing the assets, but also the case of holding the private keys associated with the assets, or even the case of protecting access to the assets, like holding one of the keys protecting the access to the assets.

3.2

cold wallet

cold storage

offline application or mechanism used to generate, manage, store, or use private and public keys

3.3

hot wallet

hot storage

online application or mechanism used to generate, manage, store, or use private and public keys

3.4

hardware wallet

wallet which leverages a hardware device (e.g. HSM) to generate, manage, store, or use private and public keys

3.5

deterministic wallet

wallet in which multiple key pairs are derived from a single starting point known as a seed

3.6

hierarchical deterministic wallet

deterministic wallet (3.5) in which child key pairs are derived from the master key pair

Note 1 to entry: Descendant key pairs can be derived from the child key pairs, in a hierarchical manner, hence the name of the wallet. Child key pairs can be used and shared without having to share the master key pair. It is defined within Reference [7].

iTeh Standards

4 **Abbreviated terms** (<https://standards.iteh.ai>)

AML	anti-money laundering
API	application programming interface
APT	advanced persistent threat
CFT	countering financing of terrorism
DLT	distributed ledger technology
DNS	domain name system
FATF	Financial Action Task Force
FQDN	fully qualified domain name
HSM	hardware security module
SMS	short message service
ISMS	information security management system
ISP	internet service provide
KYC	know your customer
OS	operating system
OWASP	Open Web Application Security Project
PII	personally identifiable information

Document Preview

ISO/TR 23576:2020

<https://standards.iteh.ai/catalog/standards/iso/6474f0cc-2dcc-4457-ba51-741180ccacd1/iso-tr-23576-2020>

- PKI public key infrastructure
- PoW proof of work
- TLS transport layer security

5 Basic description of a model of online system for digital asset custodianship

5.1 General

In this clause, an example implementation for an online digital asset custodian system is presented. This model will then be used to explain the concepts and provisions in this document. However, it is also worth noting that other types of custodian systems exist. For example, decentralized exchanges (DEXs), have quite a different implementation compared to the one illustrated in Figure 1. Furthermore, protocols like atomic swap and multisignature can be considered a type of custodian as well. Therefore, although most of the content of this document applies to any kind of custodian, some of the risks and potential controls discussed may or may not apply to other types of custodian systems.

5.2 Example of a system for digital asset custodians and its functional components

Figure 1 shows an example model for a digital asset custodian system.

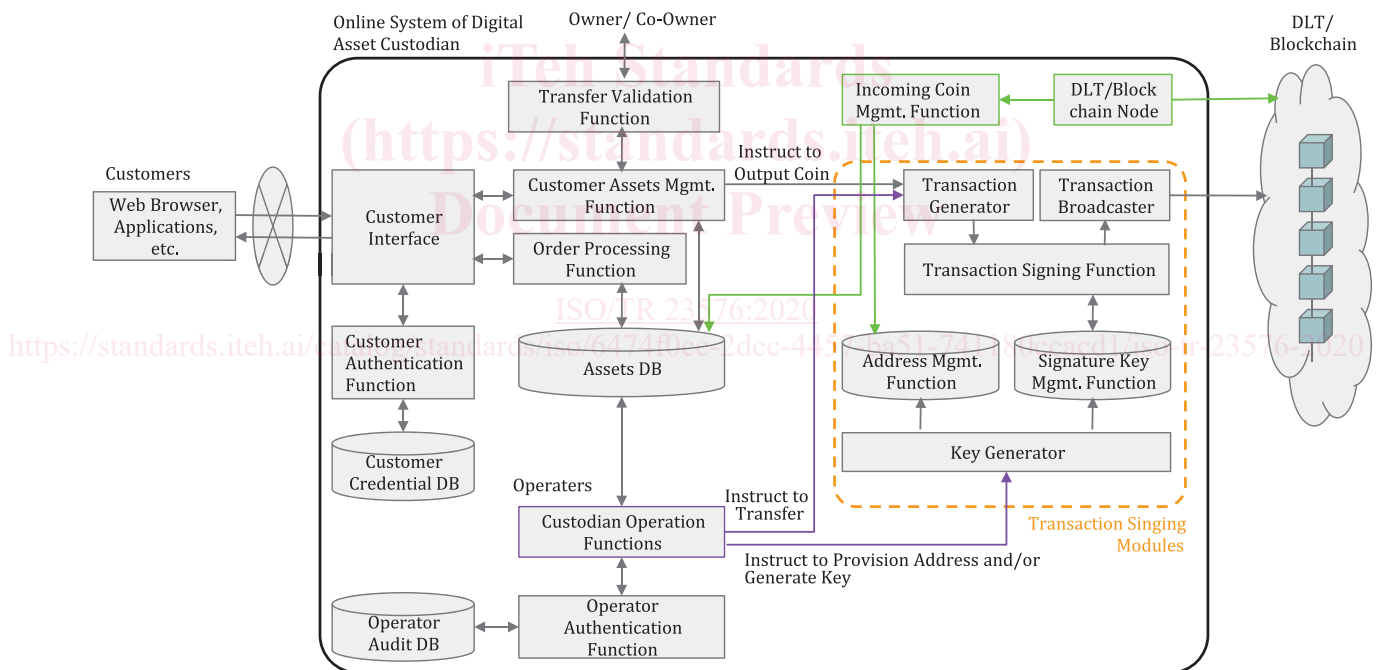


Figure 1 — Basic example model of a digital asset custodian

Table 1 — Functional components of a digital asset custodian

Functional components	Explanation
Interface (web application, APIs)	Provides screen and input functions such as login, account management (deposit/withdrawal) and trading for the customers (users). The most common interfaces are web applications, APIs, and mobile apps.
Customer authentication function	Performs user authentication for login purposes to the system.
Customer credential database	Manages required IDs for login and verification information related to user authentication process (e.g. password verification information).

Table 1 (continued)

Functional components		Explanation
Transfer validation function		Verifies the granted permission to proceed to the transfer of digital data or assets by the owner or co-owners when the transfer implies the validation of multiple parties. For example, the use of multisignatures schemes to validate an authorized outgoing transaction.
Customer assets management function		A group of functions which provide customer account management. For example, these functions perform deposits or withdrawals (output coins) and, more generally, other asset manipulation processes according to user instructions. The functions provided may refer to or update asset data.
DLT / Blockchain node		A node in a DLT / blockchain system, which communicates with its peers (i.e. other nodes).
Incoming transaction management function		Verifies transactions stored in DLT / blockchain to confirm whether incoming assets refer to the specified addresses. Updates the asset database according to the transaction retrieved from the DLT / blockchain.
Order processing function		A group of functions for the management of sales instructions from customers. The order processing function performs actions related to trading of digital assets. This function refers to and updates asset data.
Assets database		Manages the record of assets both for fiat currencies and digital assets. The asset database does not include the signature keys for signing transactions. These are managed separately from the assets for each customer.
Transaction signing modules	Transaction generator	Generates transactions to be sent to the DLT / blockchain based on instructions from the customer asset management function or the custodian's operation function.
	Transaction broadcaster	Sends the signed transaction to the DLT / blockchain. Transactions are broadcasted to blockchain nodes through network protocols.
	Transaction signing function	Generates digital signatures based on the instructed transaction contents using the relevant signature key (i.e. IDs and addresses).
	Address management function	Manages verification keys related to the signature keys, or to addresses (i.e. such as values calculated from the verification keys).
	Signature key management function	Manages the signature keys of the digital assets (i.e. the keys used for the signature of the transactions). Signature keys may be stored in a cold wallet as a security measure.
	Signature key generator	Generates signature keys. The generated keys are registered in the signature key management function, and the verification keys and addresses are registered in the address management function.
Custodian operation functions		A group of functions dedicated to the custodian's operators and/or administrators. Administrator and operators can instruct the module to perform function such as generating new signature keys or transfer digital assets.
Operator authentication function		Authenticates the operators and administrators of the system.
Operator audit database		Manages auditing data related to the authentication processes of operators and administrators for the system.

The functional components described in [Table 1](#) are intended to logically distinguish the various functions within the system, and do not represent an actual architecture of such a system. As an example, in a real-world implementation, the address management function would probably be implemented using a database. Also, there are implementations in which multiple functional components are packaged together. All the functional components of the transaction signature system could be integrated within the customer asset management system, or they could be operating as a separate system. Many implementations of Bitcoin wallets provide all functions for the transaction signature system as a single atomic system. It is also possible to imagine some of these functions being provided by an external “subcontractor” system, such as a remote server.

5.3 Examples of transactions

- Fiat currency deposit
 - a) The customer sends fiat currency to the custodian's bank account.
 - b) The custodian confirms the reception of the fiat currency transfer and updates its assets database to reflect the customer's asset status in relation to the transfer just received.
- Digital asset deposit
 - a) The customer transfers digital assets to an address specified by the custodian. The transfer is performed by using the customer's digital assets wallet (i.e. other custodian or web/app wallet).
 - b) The custodian confirms that the digital assets have been transferred to the correct address and updates its assets database to reflect the customer's asset status in relation to the transfer just received.
- Trading transaction
 - a) The customer accesses the interface made available by the custodian and instructs the system to perform some actions (e.g. trading).
 - b) The instructions to perform an action are received by the custodian and are processed by the custodian operations functions module. The result of the trade operations is processed by the custodian operations functions module which updates the asset database accordingly.
- Customer digital asset withdrawal
 - a) The customer accesses the interface made available by the custodian and instructs the system to transfer their digital assets to another address (i.e. output coins).
 - b) The instruction to output coins is processed by the customer assets management functions module. The transaction generator creates a transaction message based on the received instructions such as receiving address and the amount of digital assets to transfer.
 - c) The transaction message will be digitally signed by the transaction signing functions module.
 - d) The signed transaction message is delivered to all nodes on the DLT / blockchain by the transaction broadcaster module.
- Internal transfer by operator or administrator
 - a) The administrator or operator instructs the system to transfer digital assets to another address through the custodian operations functions module. For example, the digital assets may be sent between addresses managed within the custodian.
 - b) The instructions to output coins are then processed by the custodian operations functions module. The transaction generator creates a transaction message based on the received instructions such as receiving address and the amount of digital assets to transfer.
 - c) The transaction message will be digitally signed by the transaction signing functions module.
 - d) The signed transaction message is delivered to all nodes on the DLT / blockchain by the transaction broadcaster module.

5.4 Description of keys used for signature and encryption

5.4.1 Type of keys

Table 2 describes the different types of keys which can be used for signature and encryption within a digital asset custodian system.

Table 2 — Types of keys

Types	Description
Signature key	A signature key for signing transactions (for digital signature schemes standardized in ISO/IEC 9796 (all parts) and ISO/IEC 14888 (all parts))
Verification key	A public key for verification of transactions (for digital signature schemes standardized in ISO/IEC 9796 (all parts) and ISO/IEC 14888 (all parts)) It is common practice in public blockchains to calculate addresses as unique values derived from the verification key. In private DLT systems / blockchains this may not be necessary
Encryption/decryption key for signature key	Secret key (symmetric key cryptography) used to keep signature key confidential / protected
Master seed	A seed to generate a signature key in a deterministic wallet

5.4.2 Flow for key generation and key usage

Figure 2 shows a typical lifecycle for the different type of keys described in Table 2.

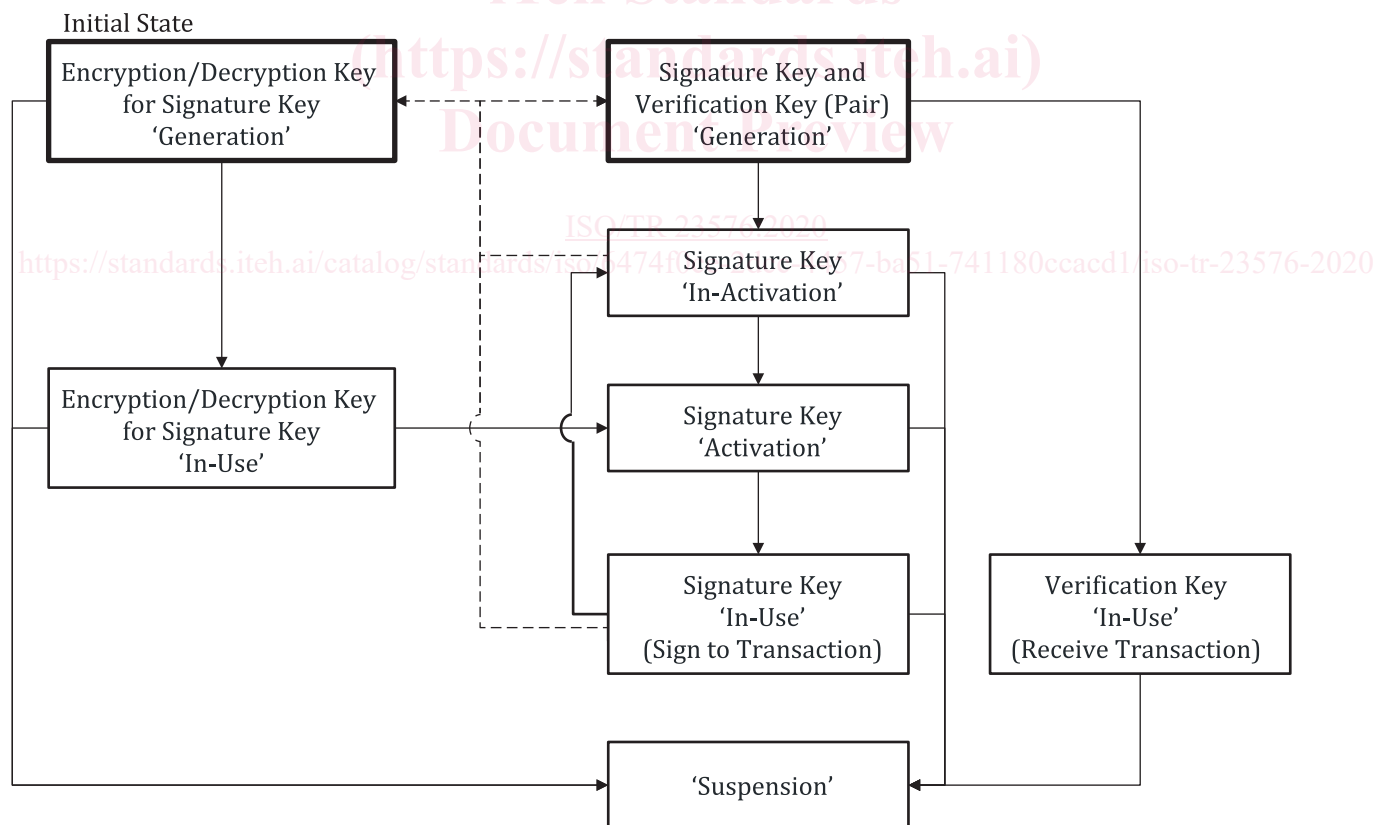


Figure 2 — Lifecycle of signature key, verification key and encryption/decryption key for signature key