1 Introduction

Bitcoin is a P2P digital cryptocurrency created by pseudonymous developer Satoshi Nakamoto. The first paper on Bitcoin [6], also referred to as the original Bitcoin paper, was published by Nakamoto in 2008. It provides a brief description of the concepts and architecture schematics of the Bitcoin protocol. It was used as theoretical groundwork for the first implementation of a fully functional Bitcoin client. However, up until present times, no structured and accessible protocol specification has been written. Although the Bitcoin community has successfully created a protocol specification [9], it requires solid prior understanding of its concepts and implementation. In the scope of this paper a formal and accessible specification of the core Bitcoin protocol, i.e. excluding the P2P overlay network, will be presented.

2 Preliminaries

This section gives a short introduction to cryptographic constructs necessary for a thorough understanding of this paper. In particular, the proof-of-work protocol and Merkle Trees will be discussed. Note that Digital Signatures are required as well but are intentionally skipped since they are sufficiently covered by online literature.

2.1 Proof of Work

A proof-of-work is a cryptographic scheme used to ensure that a party has performed a certain amount of work. In particular, Bitcoin incorporates a proof-of-work system based on Adam Back’s Hashcash [3] for Bitcoin mining (see Sect. 5.2). It has two basic properties - firstly, it ensures that the party providing the proof-of-work has invested a predefined amount of effort in order to create the proof and secondly, that the proof is efficiently verifiable. Typically, finding a proof-of-work is a probabilistic process with a success probability depending on the predefined difficulty.

Let Alice and Bob be two parties communicating with each other and let Alice require Bob to perform a certain amount of computational work for each message he sends to Alice. To do so, Alice can require Bob to provide a string whose one-way hash satisfies a predefined structure. In turn, finding such a string has a certain success probability that will determine how much work Bob has to invest on average in order to find a valid solution.

For example, in Bitcoin the hashing algorithm is SHA256 and the predefined structure a hash less or equal to a target value T. The success probability of finding a nonce n for a given message msg, such that $H =$ SHA256$(\text{msg} || n)$ is less or equal to the target T is

$$\Pr[H \leq T] = \frac{T}{2^{256}}.$$  (1)
This will require a party attempting to find a proof-of work to perform, on average, the following amount of computations

$$\frac{1}{\Pr[H \leq T]} = \frac{2^{256}}{T}. \quad (2)$$

Finally, it is easy to see that it can be efficiently verified whether the nonce accompanied with the message is indeed a valid proof-of-work by simply evaluating:

$$\text{SHA256}^2(\text{msg}||n) \leq T \quad (3)$$

2.2 Merkle Trees

Merkle trees, named after their creator Ralph Merkle, are binary hash trees used for efficient and secure verification of data integrity. However, note that Merkle trees alone do not guarantee integrity against active adversaries, as they can modify any data and re-compute the resulting tree at will. Nevertheless, under the assumption that the tree cannot be modified, any attempt of tampering with the data will be detected when the tree is verified.

An example of a Merkle tree can be seen in Fig. 2.1. Leaves are computed directly as hashes over data blocks, whereas nodes further up the tree are computed by concatenating their respective children.

The main advantage of Merkle trees is that when one data block changes it is not necessary to compute a hash over all the data, as opposed to naive hashing. Assume data block $d_{00}$ is modified, then $n_{00}$ has to be re-computed and all nodes along the branch until the root. Therefore, the number of to be computed hashes scales logarithmically in the number of nodes. Since hashes are relatively small

\[ n_0 = h(n_{00}||n_{01}) \\
\]  

\[ n_1 = h(n_{10}||n_{11}) \\
\]  

\[ n_0 = h(d_{00}) \\
\]  

\[ n_{00} = h(d_{00}) \\
\]  

\[ n_{01} = h(d_{01}) \\
\]  

\[ n_{10} = h(d_{10}) \\
\]  

\[ n_{11} = h(d_{11}) \\
\]  

\[ d_{00} \]

\[ d_{01} \]

\[ d_{10} \]

\[ d_{11} \]
in size, this process is fairly efficient. Finally, since the tree can be recreated from the supplied data blocks, it is sufficient to only store the root.

**Corner cases**

The case that is considered above is when the number of data blocks is a power of two. Naturally, this need not always be the case. For this reason the situation has to be considered where the number of data blocks is not a power of two. In the following the solution employed by the Bitcoin protocol will be presented.

The solution is straightforward - when forming a row in the tree (excluding the root), whenever there is an odd number of nodes, the last node is duplicated. In effect, each intermediary row in the tree will always have an even number of nodes.

![Merkle Tree with odd node count](image)

Fig. 2.2. Merkle Tree with odd node count

In the example given in Fig. 2.2 there are only three data blocks and therefore the computation of the fourth node in the second row is missing a child. Thus, the last node is replicated and the computation is continued as in the previous example (see Fig. 2.1). Should an odd number of nodes occur at any other point during the computation, then the same rule is applied.
3 Architecture

Bitcoin is a decentralized digital currency based on a P2P network. Within the network each node is responsible for processing transactions and maintaining a public ledger of all transactions. Transactions are processed in a procedure called mining (see Sect. 5.2). The ledger, also known as the blockchain, is a record of all transactions that have ever occurred in the Bitcoin system and is used to track ownership of Bitcoins (see Sect. 5). In this section the structure of blocks forming the blockchain will be discussed. Note that the following description is based on the Bitcoin source code [5] and the publicly available protocol specification [9]. Furthermore, all data types denoted in class diagrams are described in detail in Appendix A.

3.1 Blocks

Each block is composed of a header and a payload. The header stores the current block header version \( n\text{Version} \), a reference to the previous block \( \text{HashPrevBlock} \), the root of the Merkle tree \( \text{HashMerkleRoot} \), a timestamp \( \text{nTime} \), a target value \( n\text{Bits} \) and a nonce \( n\text{Nonce} \). Finally, the payload stores transactions included in the block.

<table>
<thead>
<tr>
<th>Field name</th>
<th>Type (Size)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>nVersion</td>
<td>int (4 bytes)</td>
<td>Block format version (currently 2).</td>
</tr>
<tr>
<td>HashPrevBlock</td>
<td>uint256 (32 bytes)</td>
<td>Hash of previous block header ( \text{SHA256}^{n\text{Version}}</td>
</tr>
<tr>
<td>HashMerkleRoot</td>
<td>uint256 (32 bytes)</td>
<td>Top hash of the Merkle tree built from all transactions.</td>
</tr>
<tr>
<td>nTime</td>
<td>unsigned int (4 bytes)</td>
<td>Timestamp in UNIX-format of approximate block creation time.</td>
</tr>
<tr>
<td>nBits</td>
<td>unsigned int (4 bytes)</td>
<td>Target ( T ) for the proof-of-work problem in compact format. Full target value is derived as: ( T = 0xh_2h_3h_4h_5h_6h_7 \times 2^{8\times(0xh_0h_1h_2)} ).</td>
</tr>
<tr>
<td>nNonce</td>
<td>unsigned int (4 bytes)</td>
<td>Nnonce allowing variations for solving the proof-of-work problem.</td>
</tr>
<tr>
<td>#vtx</td>
<td>VarInt (1-9 bytes)</td>
<td>Number of transaction entries in vtx.</td>
</tr>
<tr>
<td>vtx[]</td>
<td>CTransaction (Variable)</td>
<td>Vector of transactions.</td>
</tr>
</tbody>
</table>

Table 3.1. CBlock Class Description
**nVersion**
The version field stores the version number of the block format. Ever since BIP0034 [1] is in place, the block format version is 2. Furthermore, by now the 95% rule is in place, which states that all version 1 blocks should be rejected once 950 of the last 1000 blocks are version 2 or greater. Note that this change must be enforced by any full node.

**HashPrevBlock**
This field stores the reference to the previous block, computed as a hash over the block header as depicted in Fig. 3.1.

![Fig. 3.1. Hash of Previous Block](image)

A double-SHA256 hash is calculated over the concatenation of all elements in the previous block header:

\[
\text{SHA256}^2(\text{nVersion}||\text{HashPrevBlock}||\text{HashMerkleRoot}||\text{nTime}||\text{nBits}||\text{nNonce})
\]  
(4)

The reference functions as a chaining link in the blockchain. By including a reference of the previous block, a chronological order on blocks, and thus transactions as well, is imposed.

**HashMerkleRoot**
This field stores the root of the Merkle hash tree. It is used to provide integrity of all transactions included in the block and is computed according to the scheme described in Sect. 2.2. The parameters used for computing the tree are double-SHA256 as the hashing algorithm and raw transactions as data blocks (see Table 3.2 and 3.4).

**nTime**
The time field stores the timestamp in UNIX format denoting the approximate block creation time. As the timestamp is a parameter included in the block mining process, it is fixed at the beginning of the mining process.
nBits
The nBits field stores a compact representation of the target value T. The target value is a 256 hex-digit long number, whereas its corresponding compact representation is only 8 hex-digits long and thus encoded with only 4 bytes. The target value can be derived from its compact hexadecimal representation 0xh0h1h2h3h4h5h6h7 with the formula:

$$0xh2h3h4h5h6h7 \times 2^{8*(0xh6h7-3)}$$  

The upper bound for the target is defined as 0x1D00FFFF whereas there is no lower bound. The very first block, the genesis block, has been mined using the maximum target. In order to ensure that blocks are mined at a constant rate of one block per 10 minutes throughout the growing network, the target T is recalculated every 2016 blocks based on the average time t_{avg} it took to mine, due to an off-by-one error, the last 2015 blocks [10]:

$$T' = \frac{t_{avg}}{600s} \times T$$  

nNonce
The nonce field contains arbitrary data and is used as a source of randomness for solving the proof-of-work problem. However, since it is fairly small in size with 4 bytes, it does not necessarily provide sufficient variation for finding a solution. Therefore, other sources exist and will be addressed in more detail in Sect. 5.2.
3.2 Transactions

In principle, there are two types of transactions - coinbase transactions and regular transactions. Coinbase transactions are special transactions in which new Bitcoins are introduced into the system for circulation. They are included in every block as the very first transaction and are meant as a reward for solving a proof-of-work problem. Regular transactions, on the other hand, are used to transfer existing Bitcoins amongst different accounts. From an architectural point of view, the coinbase transaction can be seen as a special case of a regular transaction. For this reason, the structure of a regular transaction will be discussed first, followed by the differences between coinbase and regular transactions.

Regular transactions

As mentioned in the previous section, each block in the blockchain includes a set of transactions. Every transaction consists of a transaction version ($nVersion$), a vector of inputs ($vin$) and a vector of outputs ($vout$), both preceded by their count, and a transaction inclusion date ($nLockTime$).

<table>
<thead>
<tr>
<th>Field name</th>
<th>Type (Size)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>nVersion</td>
<td>int (4 bytes)</td>
<td>Transaction format version (currently 1).</td>
</tr>
<tr>
<td>#vin</td>
<td>VarInt (1-9 bytes)</td>
<td>Number of transaction inputs entries in $vin$.</td>
</tr>
<tr>
<td>vin[]</td>
<td>hash uint256 (32 bytes)</td>
<td>Double-SHA256 hash of a transaction.</td>
</tr>
<tr>
<td></td>
<td>n uint (4 bytes)</td>
<td>Index of a transaction output within the transaction specified by $hash$.</td>
</tr>
<tr>
<td></td>
<td>scriptSigLen VarInt (1-9 bytes)</td>
<td>Length of $scriptSig$ field in bytes.</td>
</tr>
<tr>
<td></td>
<td>scriptSig CScript (Variable)</td>
<td>Script to satisfy spending condition of the transaction output ($hash,n$).</td>
</tr>
<tr>
<td></td>
<td>nSequence uint (4 bytes)</td>
<td>Transaction version number for transaction replacement.</td>
</tr>
<tr>
<td>#vout</td>
<td>VarInt (1-9 bytes)</td>
<td>Number of transaction output entries in $vout$.</td>
</tr>
<tr>
<td>vout[]</td>
<td>nValue int64_t (8 bytes)</td>
<td>Amount of $10^{-8}$ BTC.</td>
</tr>
<tr>
<td></td>
<td>scriptPubkeyLen VarInt (1-9 bytes)</td>
<td>Length of $scriptPubkey$ field in bytes.</td>
</tr>
<tr>
<td></td>
<td>scriptPubkey CScript (Variable)</td>
<td>Script specifying conditions under which the transaction output can be claimed.</td>
</tr>
<tr>
<td></td>
<td>nLockTime unsigned int (4 bytes)</td>
<td>Timestamp past which transactions can be replaced before inclusion in block.</td>
</tr>
</tbody>
</table>

Table 3.2. CTransaction Class Description (Regular Transactions)
**nVersion**
The version field stores the version number of the transaction format. The current transaction format version is 1.

**#vin**
This field stores the number of elements in the inputs vector vin. It is encoded as a variable length integer (see Appendix A).

**vin**
The vin field stores a vector of one or more transaction inputs. Each transaction input is composed of a reference to a previous output (hash, n), the length of the digital signature script in bytes (scriptSigLen), the digital signature script (scriptSig) itself and a transaction sequence number (nSequence).

- (hash, n)
  A previous output is uniquely identified by the tuple (hash, n). hash, also referred to as the transaction ID (TxId), is computed as a double-SHA256 hash of the raw transaction:

\[
\text{TxId} = \text{SHA256}^2(\text{Transaction})
\]  

Hence, whilst a transaction is uniquely identified by its hash, the specific output within that transaction is identified by the output index n. An example is given below in Fig. 3.2.

- scriptSigLen
  This field stores the length of the signature script field scriptSig in bytes. It is encoded as a variable length integer (see Appendix A).

- scriptSig
  The signature script field contains a response script corresponding to the challenge script (ScriptPubKey) of the referenced transaction output (prevout). More precisely, whilst the challenge script specifies conditions under which the transaction output can be claimed, the response script is used to prove that the transaction is allowed to claim it. More details on transaction verification can be found in Sect. 4.2.

- nSequence
  This field stores the transaction input sequence number. It was once intended for replacing parts of a transaction before including it in a block. For each transaction input the sequence number indicated whether it could have been replaced by a different transaction input with a greater sequence number or if it was final. Final transaction inputs cannot be replaced and are indicated with the highest 4-byte integer value 0xFFFFFFFF. More details can be found in Sect. 3.3 under the Final Transaction Rule.
#vout
This field stores the number of elements in the output vector vout. It is encoded as a variable length integer (see Appendix A).

vout
The vout field stores a vector of one or more transaction outputs. Each transaction output is composed of an amount of BTC being spent (nValue), the length of the public key script (scriptPubkeyLen) and the public key script (scriptPubkey) itself.

- nValue
  The nValue field stores the amount of BTC to be spent by the output. The amount is encoded in Satoshis, that is $10^{-8}$ BTC, allowing tiny fractions of a Bitcoin to be spent. However, note that in the reference implementation transactions with outputs less than a certain value, also called “dust”, are considered non-standard [2]. This value is currently by default 546 Satoshi and can be defined by each node manually. Dust transactions are neither be relayed nor mined. More details on dust transactions can be found in Appendix B.
- `scriptPubkeyLen`
  This field stores the length of the public key script (`scriptPubkey`) in bytes. It is encoded as a variable length integer (see Appendix A).

- `scriptPubkey`
  The public key script field contains a challenge script for transaction verification. More precisely, whilst the challenge script specifies conditions under which the transaction output can be claimed, the response script is used to prove that the transaction is allowed to claim it. More details on transaction verification can be found in Sect. 4.2.

**nLockTime**
This field stores the lock time of a transaction, that is a point in time past which the transaction should be included in a block. Once the lock time has been exceeded, the transaction is locked and can be included in a block. The lock time is encoded as either a timestamp in UNIX format or as a block number:

<table>
<thead>
<tr>
<th>Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Always locked.</td>
</tr>
<tr>
<td>&lt; 5 × 10^8</td>
<td>Block number at which transaction is locked.</td>
</tr>
<tr>
<td>≥ 5 × 10^8</td>
<td>UNIX timestamp at which transaction is locked.</td>
</tr>
</tbody>
</table>

**Table 3.3. Lock Time**

If all transaction inputs (see `vin` field) have a final sequence number (see `nSequence` field), then this field is ignored. More details can be found in Sect. 3.3 under the Final Transaction Rule.
Coinbase Transactions

As can be seen in Table 3.4, except for renaming the signature script field from *scriptSig* to *coinbase*, the data structure of the transaction remains the same. However, there are several constraints specific for a coinbase transaction. In the following the differences between a regular and a coinbase transaction will be explained.

<table>
<thead>
<tr>
<th>Field name</th>
<th>Type (Size)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>nVersion</td>
<td>int (4 bytes)</td>
<td>Transaction format version (currently 1).</td>
</tr>
<tr>
<td>#vin</td>
<td>VarInt (1-9 bytes)</td>
<td>Number of transaction inputs entries in vin.</td>
</tr>
<tr>
<td>vin[]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>hash</td>
<td>uint256 (32 bytes)</td>
<td>Double-SHA256 hash of a transaction.</td>
</tr>
<tr>
<td>n</td>
<td>uint (4 bytes)</td>
<td>Index of a transaction output within the transaction specified by hash.</td>
</tr>
<tr>
<td>coinbaseLen</td>
<td>VarInt (1-9 bytes)</td>
<td>Length of coinbase field in bytes.</td>
</tr>
<tr>
<td>coinbase</td>
<td>CScript (Variable)</td>
<td>Encodes the block height and arbitrary data.</td>
</tr>
<tr>
<td>nSequence</td>
<td>uint (4 bytes)</td>
<td>Transaction version number for transaction replacement.</td>
</tr>
<tr>
<td>#vout</td>
<td>VarInt (1-9 bytes)</td>
<td>Number of transaction output entries in vout.</td>
</tr>
<tr>
<td>vout[]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>nValue</td>
<td>int64_t (8 bytes)</td>
<td>Amount of $10^{-8}$ BTC.</td>
</tr>
<tr>
<td>scriptPubkeyLen</td>
<td>VarInt (1-9 bytes)</td>
<td>Length of scriptPubkey field in bytes.</td>
</tr>
<tr>
<td>scriptPubkey</td>
<td>CScript (Variable)</td>
<td>Script specifying conditions under which the transaction output can be claimed.</td>
</tr>
<tr>
<td>nLockTime</td>
<td>unsigned int (4 bytes)</td>
<td>Timestamp until which transactions can be replaced before block inclusion.</td>
</tr>
</tbody>
</table>

Table 3.4. CTransaction Class Description (Coinbase Transactions)

#vin

The number of inputs stored in the input vector *vin* is always 1.

vin

The *vin* field stores a vector of precisely one transaction input. The input is composed of a reference to a previous output (*hash,n*), the length of the coinbase field in bytes (*coinbaseLen*), the coinbase field (*coinbase*) itself and a transaction sequence number (*nSequence*).
In a coinbase transaction new coins are introduced into the system and therefore no previous transaction output is referenced. The \((hash, n)\) tuple stores the following constant values:

\[
\begin{align*}
hash & = 0 \\
n & = 2^{32} - 1
\end{align*}
\]

The hash does not reference any previous transaction output and is therefore set to zero whereas the output index is set to its maximal value \(2^{32} - 1\).

- **coinbaseLen**
  This field stores the length of the coinbase field coinbase in bytes. It is in the range of 2-100 bytes and is encoded as a variable length integer (see Appendix A).

- **coinbase**
  The coinbase field, also referred to as the coinbase script, stores the block height, i.e. the block number within the blockchain, and arbitrary data.

<table>
<thead>
<tr>
<th>Field name</th>
<th>Size (bytes)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>blockHeightLen</td>
<td>1</td>
<td>Length of BlockHeight field in bytes.</td>
</tr>
<tr>
<td>blockHeight</td>
<td>blockHeightLen</td>
<td>Block height encoding.</td>
</tr>
<tr>
<td>arbitraryData</td>
<td>(coinbaseLen - (blockHeightLen+1))</td>
<td>Arbitrary data field.</td>
</tr>
</tbody>
</table>

**Table 3.5. Coinbase Field Encoding**

The beginning of the field is reserved since block format version 2 for the block height. As described in BIP0034 [1], it is encoded in serialized CScript format, i.e. the first byte specifies the number of bytes used for encoding the block height, followed by the block height itself in little-endian notation. The remaining bytes can be chosen arbitrarily.

**vout**

The transaction output vector is constrained by the maximal sum of Bitcoins that are allowed to be transacted. More precisely, there are certain rules how the \(nValue\) field is to be calculated.

- **nValue**
  In a coinbase transaction the miner is allowed to transfer the current mining subsidy, as well as transaction fees for all included transactions, as a reward for solving the proof-of-work problem. The subsidy for finding a valid block is currently 25 BTC and is halved every 210000 blocks. The transaction fee, on the other hand, is computed for each transaction as the difference between the sum of input values (referenced output values) and the sum of output values.
3.3 Transaction Standardness

Transaction standardness can be defined as a set of requirements that is enforced upon a transaction and need to be adhered to. These requirements are enforced throughout the network by every node that utilizes the reference client for transaction processing. Transactions that do not meet all the requirements are considered non-standard and will be neither relayed nor mined. Note that these rules are not enforced upon transactions of an already mined block, thus permitting to mine and include non-standard transactions in blocks. The transaction standardness rules are as follows.

Transaction Size
A single transaction may not exceed 10000 bytes in size.

Transaction Version
The transaction format version must be the prevalent one (currently 1).

Final Transaction Rule
It is said that a transaction is final, and thus eligible to be included in a block, if it satisfies one of the following conditions:

1) The transaction lock time (see nLockTime field) is set to locked or has been exceeded.
2) All transaction inputs are final (see nSequence field).

This rule is associated with an obsolete mechanism called transaction replacement. It allowed to replace certain parts of a transaction, e.g. transaction inputs, until either all transaction inputs were finalized or the transaction lock time has passed. Note, however, that the transaction replacement functionality has been completely removed to reduce the complexity of the protocol and although the transaction lock time functionality is still in place, it is considered non-standard.

Transaction Input Rules
For each transaction input the following requirements must be satisfied:

1. Signature Script Size
   The size of the signature script field scriptSig may not exceed 500 bytes. Note that this limitation will change to 1650 bytes in the next major release of reference client.

2. Push Only
   Only a restricted set of data push operations is allowed in the signature script field scriptSig.

3. Canonical Pushes
   As the Bitcoin scripting language Script allows several push operations for data of varying size, only canonical pushes are permitted.
Transaction Output Rules
For each transaction output the following requirements must be satisfied:

1. **Standard Transaction Type**
   The public key script field `scriptPubKey` must encode a standard transaction type (see Sect. 4.3).

2. **Non-Dust Transaction**
   The amount of Bitcoins spent by the transaction output must be less than 1/3rd’s in transaction fees (see Appendix B for more details).

**Nulldata Transactions Count**
At most one transaction output of Nulldata transaction type (see Sect. 4.3) per transaction is permitted.
4 Bitcoin ownership

4.1 General

Bitcoin utilizes two cryptographic protocols to realize a secure and decentralized transaction authorization system. Firstly, it employs asymmetric cryptography for identification and authentication of recipients, as well as to ensure integrity of regular transactions. More precisely, the public key of a public/private keypair is used to identify a particular recipient or recipients, whereas the private key is used to create a signature for both transaction authentication and integrity. Secondly, the variable computational hardness of the proof-of-work protocol is used to regulate coin supply and to reward miners for transaction processing. In the probabilistic mining process all regular transactions of users and a special coinbase transaction created by the miner are being processed by solving the proof-of-work problem. It is important to note that while the authenticity and integrity of regular transactions is ensured by the previously discussed signature scheme, the integrity of coinbase transactions is assured by the proof-of-work problem. The exact application of these protocols is illustrated below in Fig. 4.1.

Fig. 4.1. Bitcoin Transaction Chain

To begin with, Bitcoins are introduced into the system with coinbase transactions (see Sect. 3.2). In it the miner specifies one or more transaction outputs (\(vout\)), defining the amounts and destinations to which the freshly created coins are to be transferred. He identifies each destination by including a public key or a derived form of it in the public key script field (\(scriptPubKey\)). As discussed above, the integrity of the coinbase transaction is ensured by the computational hardness of the proof-of-work problem.
Next, when the miner intends to spend his reward, he creates a regular transaction, references it to the specific output of the coinbase transaction and provides a signature in the signature script field (scriptSig). Since the signature is computed over the complete transactions (see Sect. 4.5), control of the private key corresponding to the referenced public key is proven and integrity of the transaction is guaranteed. This chain is continued indefinitely and logged publicly in the blockchain to keep track of all coins within the system at all times.

4.2 Script

Script is a stack-based, Turing-incomplete language designed specifically for the Bitcoin protocol. A script is essentially a set of instructions\(^1\) that are processed left to right. Script is used to encode two components - a challenge script and a response script:

- A challenge script (see scriptPubKey) accompanies a transaction output and specifies under which conditions it can be claimed.
- A response script (see scriptSig) accompanies a transaction input and is used to prove that the referenced output can be rightfully claimed.

For a given transaction, each transaction input is verified by first evaluating scriptSig, then copying the resulting stack and finally evaluating scriptPubKey of the referenced transaction output. If during the evaluation no failure is triggered and the final top stack element yields true, then the ownership has been successfully verified.

Although Script is very comprehensive and allows one to construct intricate conditions under which coins can be claimed, much of its functionality is currently disabled in the reference implementation and only a restricted set of standard script templates is accepted. These are Pay-to-Pubkey (P2PK), Pay-to-PubkeyHash (P2PKH), Pay-to-ScriptHash (P2SH), Multisig and Nulldata. In the next section, the structure of all existing transaction types will be discussed.

\(^1\) See https://en.bitcoin.it/wiki/Script for complete reference.
4.3 Standard Transaction Types

**Pay-to-Pubkey (P2PK)**

The structure of the challenge and response scripts of a Pay-to-Pubkey transaction are depicted below in Fig. 4.2. Note that operations in a script are written as OP\_X, where OP stands for operation and X is an abbreviation of the operation's function. For example, in Fig. 4.2 CHECKSIG stands for signature verification.

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empty</td>
<td>&lt;signature&gt;</td>
<td>The signature is pushed on the stack.</td>
</tr>
<tr>
<td>&lt;signature&gt;</td>
<td>Empty</td>
<td>Final state after evaluating scriptSig.</td>
</tr>
</tbody>
</table>

| scriptPubkey:  | OP_CHECKSIG      |                               |
| scriptSig:     | <signature>      |                               |

*Fig. 4.2. Pay-to-Pubkey Structure*

In a Pay-to-Pubkey transaction the sender transfers Bitcoins directly to the owner of a public key. He specifies in the challenge script the public key (pubkey) and one requirement that the claimant has to prove:

1) Knowledge of the private key corresponding to the public key.

To do so, the claimant creates a response script with only a signature. The scripts are then evaluated as depicted in Table 4.1 and 4.2. The signature and the public key are pushed onto the stack and evaluated. Note that the signature is computed as described in Sect. 4.5.

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empty</td>
<td>&lt;signature&gt;</td>
<td>The signature is pushed on the stack.</td>
</tr>
<tr>
<td>&lt;signature&gt;</td>
<td>Empty</td>
<td>Final state after evaluating scriptSig.</td>
</tr>
</tbody>
</table>

| Table 4.1. Pay-to-Pubkey scriptSig Execution |

**Pay-to-PubkeyHash (P2PKH)**

The structure of the challenge and response scripts of a Pay-to-PubkeyHash transaction can be seen below in Fig. 4.3.

| scriptPubkey:  | OP_DUP OP_HASH160 <pubkeyHash> OP_EQUALVERIFY OP_CHECKSIG |
| scriptSig:     | <signature> <pubkey> |

*Fig. 4.3. Pay-to-PubkeyHash Structure*

In a Pay-to-PubkeyHash transaction the sender transfers Bitcoins to the owner of a P2PKH address (see Sect. 4.4). He specifies in the challenge script the public key hash (pubkeyHash) of the Bitcoin address (depicted in Fig. 4.8) and two requirements that the claimant has to prove:
The public key is pushed on the stack.

The signature is verified for the top two stack elements and the result is pushed on the stack.

Table 4.2. Pay-to-Pubkey scriptPubkey Execution

1) Knowledge of the public key corresponding to pubkeyHash.
2) Knowledge of the private key corresponding to the public key.

To do so, the claimant creates a response script with a signature and a public key. The scripts are then evaluated as depicted in Table 4.3 and 4.4. First, it is verified if the public key (pubkey) provided by the claimant corresponds to the public key hash (pubkeyHash) provided by the sender and then whether the signature is valid. The signature is computed as described in Sect. 4.5.
### Table 4.3. Pay-to-PubkeyHash `scriptSig` Execution

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empty</td>
<td><code>&lt;signature&gt; &lt;pubkey&gt;</code></td>
<td>The signature and the public key are pushed on the stack.</td>
</tr>
<tr>
<td><code>&lt;pubkey&gt; &lt;signature&gt;</code></td>
<td>Empty</td>
<td>Final state after evaluating <code>scriptSig</code>.</td>
</tr>
</tbody>
</table>

### Table 4.4. Pay-to-PubkeyHash `scriptPubkey` Execution

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><code>&lt;pubkey&gt; &lt;signature&gt;</code></td>
<td>OP_DUP OP_HASH160 <code>&lt;pubkeyHash&gt;</code> OP_EQUALVERIFY OP_CHECKSIG</td>
<td>State after copying the stack of the signature script evaluation.</td>
</tr>
<tr>
<td><code>&lt;pubkey&gt; &lt;pubkey&gt; &lt;signature&gt;</code></td>
<td>OP_HASH160 <code>&lt;pubkeyHash&gt;</code> OP_EQUALVERIFY OP_CHECKSIG</td>
<td>The top stack element is duplicated.</td>
</tr>
<tr>
<td><code>&lt;pubkeyHashNew&gt; &lt;pubkey&gt; &lt;signature&gt;</code></td>
<td><code>&lt;pubkeyHash&gt;</code> OP_EQUALVERIFY OP_CHECKSIG</td>
<td>The top stack element is first hashed with SHA256 and then with RIPEMD160.</td>
</tr>
<tr>
<td><code>&lt;pubkeyHash&gt; &lt;pubkeyHashNew&gt; &lt;pubkey&gt; &lt;signature&gt;</code></td>
<td>OP_EQUALVERIFY OP_CHECKSIG</td>
<td>The public key hash is pushed on the stack.</td>
</tr>
<tr>
<td><code>&lt;pubkey&gt; &lt;signature&gt;</code></td>
<td>OP_CHECKSIG</td>
<td>Equality of the top two stack elements is checked. If it evaluates to true then execution is continued. Otherwise it fails.</td>
</tr>
<tr>
<td>True</td>
<td>Empty</td>
<td>The signature is verified for the top two stack elements.</td>
</tr>
</tbody>
</table>
Pay-to-ScriptHash (P2SH)

The structure of the challenge and response scripts of a Pay-to-ScriptHash transaction is depicted below in Fig. 4.4.

| scriptPubkey: OP_HASH160 <scriptHash> OP_EQUAL |
| scriptSig: <signatures> {serializedScript} |

Fig. 4.4. Pay-to-ScriptHash Structure

In a Pay-to-ScriptHash transaction the sender transfers Bitcoins to the owner of a P2SH Bitcoin address (see Sect. 4.4). He specifies in the challenge script the serialized script hash scriptHash of the Bitcoin address (depicted in Fig. 4.9) and one requirement that the claimant has to prove:

1) Knowledge of the redemption script serializedScript corresponding to scriptHash.

To do so, the claimant creates a response script with one or more signatures and the serialized redemption script serializedScript. Note that unlike in any other standard transaction type the responsibility of supplying the conditions for redeeming the transaction is shifted from the sender to the redeemer. The redeemer may specify any conditions in the redemption script serializedScript conforming to standard transaction types. For example, he may define a standard Pay-to-Pubkey transaction as a Pay-to-ScriptHash transaction as follows:

| scriptPubkey: OP_HASH160 <scriptHash> OP_EQUAL |
| scriptSig: <signatures> {<pubkey> OP_CHECKSIG} |

Fig. 4.5. P2SH Pay-to-PublicKey Structure

Due to the nested nature of this transaction type, the script evaluation requires an additional step. First, it is verified whether the redemption script (serializedScript) provided by the claimant corresponds to the redemption script hash (scriptHash) provided by the sender and then the transaction is evaluated using the redemption script as scriptPubkey. The evaluation is depicted in Table 4.5, 4.6 and 4.7.
The signature and the redemption script are pushed on the stack.

Table 4.5. Pay-to-ScriptHash \textit{scriptSig} Execution

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empty</td>
<td>{&lt;signature&gt;}</td>
<td>The top stack element is first hashed with SHA256 and then with RIPEMD160.</td>
</tr>
<tr>
<td>{&lt;pubkey&gt; OP_CHECKSIG} &lt;signature&gt;</td>
<td>Empty</td>
<td>Equality of the top two stack elements is checked. The result of the evaluation is pushed on the stack.</td>
</tr>
</tbody>
</table>

For the additional validation step the stack after \textit{scriptSig} execution is copied, the top stack element is popped and used as the script. The state now resembles the beginning of a standard Pay-to-Pubkey transaction evaluation (see Table 4.2).

Table 4.6. Pay-to-ScriptHash \textit{scriptPubkey} Execution

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>{&lt;pubkey&gt; OP_CHECKSIG} &lt;signature&gt;</td>
<td>OP_HASH160 &lt;scriptHash&gt; OP_EQUAL</td>
<td>State after copying the stack of the signature script evaluation.</td>
</tr>
<tr>
<td>&lt;scriptHashNew&gt; &lt;signature&gt;</td>
<td>&lt;scriptHash&gt; OP_EQUAL</td>
<td>The redemption script hash is pushed on the stack.</td>
</tr>
<tr>
<td>&lt;scriptHash&gt; &lt;scriptHashNew&gt; &lt;signature&gt;</td>
<td>OP_EQUAL</td>
<td>Equality of the top two stack elements is checked. The result of the evaluation is pushed on the stack.</td>
</tr>
<tr>
<td>True &lt;signature&gt;</td>
<td>Empty</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.7. Pay-to-ScriptHash Supplementary Validation

<table>
<thead>
<tr>
<th>Stack</th>
<th>Remaining Script</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>{&lt;signature&gt;}</td>
<td>&lt;pubkey&gt; OP_CHECKSIG</td>
<td>Initial state of supplementary validation step.</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>
**Multisig**
The structure of the challenge and response scripts of a Multisig transaction is depicted below in Fig. 4.6.

```
scriptPubkey: m <pubkey 1> ... <pubkey n> n OP_CHECKMULTISIG
scriptSig:   OP_0 <signature 1> ... <signature m>
```

**Fig. 4.6. Multisig Structure**

In a Multisig transaction the sender transfers Bitcoins to the owner of \( m \)-of-\( n \) public keys. He specifies in the challenge script \( n \) public keys (\( pubkey 1..n \)) and a requirement that the claimant has to prove:

1) Knowledge of at least \( m \) private keys corresponding to the public keys.

To do so, the claimant creates a response script with at least \( m \) signatures in the same order of appearance as the public keys. Note that due to an off-by-one error `OP_CHECKMULTISIG` pops one too many elements off the stack and it is therefore required to prepend the response script with a zero data push `OP_0`. The script is then evaluated as depicted in Table 4.8 and 4.9. First, the signatures are pushed on the stack, followed by the number of required signatures \( m \), the public keys and the number of public keys \( n \).

The bounds for a standard Multisig transaction are \( 1 \leq m \leq n \leq 3 \), whereas for a P2SH Multisig transaction they are variable. The upper bound for a P2SH Multisig transaction is restricted by both the allowed size of the signature script `scriptSig` (500 bytes) and the allowed size of the serialized script `serializedScript` (520 bytes). It is therefore possible to create e.g. a 1-of-12 P2SH Multisig transaction with compressed public keys or a 4-of-5 P2SH Multisig transaction with compressed public keys. Note that the maximum size of the signature script `scriptSig` will be increased in the next major release to 1650 bytes, thus allowing even bigger P2SH Multisig transactions.

**Nulldata**
The structure of the challenge and response scripts of a Nulldata transaction is depicted below in Fig. 4.7.

```
scriptPubkey: OP_RETURN [SMALLDATA]
scriptSig:
```

**Fig. 4.7. Nulldata Structure**

Unlike all other standard transaction types, a Nulldata transaction does not specify any particular recipient. The Bitcoin amount associated with a Nulldata transaction can be claimed by miners on a first-come first-served basis, the same way transaction fees are claimed. The motivation behind it is twofold. Firstly, it
The signatures are pushed on the stack.

Final state after evaluating scriptSig.

State after copying the stack of the signature script evaluation.

The public keys are pushed on the stack.

The signatures are verified in order of appearance and the result is pushed on the stack.

plays a role in keeping the database of spendable outputs maintained by every wallet, also referred to as the UTXO set, clean. Any transaction output with an OP_RETURN operation in it is provably unspendable and thus easily detectable. Secondly, due to its optional data field of 40 bytes, it allows to append arbitrary data with each transaction for various purposes. Note, however, that in order to prevent blockchain flooding only one OP_RETURN output is permitted in each transaction.
4.4 Bitcoin Addresses

A Bitcoin address is a unique, 27-34 alphanumeric characters long identifier that can be used as a destination for Bitcoin payments. There are currently two different types of Bitcoin addresses in existence - Pay-to-PubkeyHash addresses and Pay-to-ScriptHash addresses - which are used in conjunction with their corresponding transaction type. In the following both will be described in detail.

Pay-to-PubkeyHash Address

Essentially, a Pay-to-PubkeyHash address is a hash of the public key portion of the public-private ECDSA keypair with a built-in checksum. Schematics of how it is calculated can be seen in Fig. 4.8.

First, the EC public key is hashed using SHA256 and RIPEMD160. The resulting structure will be referred to as pubKeyHash. Next, a constant version byte is prepended to pubKeyHash. A checksum is built over it by applying a double-SHA256 hash and truncating the result to the first 4 bytes. The checksum is then appended. Finally, the result is converted into a human-readable string using Base58 encoding [8]. The final result is a P2PKH address.

Pay-to-ScriptHash Address

A Pay-to-ScriptHash address on the other hand, is a hash of the redemption script serializedScript, with a built-in checksum. Schematics of how it is calculated can be seen in Fig. 4.9.

First, the redemption script is hashed using SHA256 and RIPEMD160. The resulting structure will be referred to as scriptHash. Next, a constant version byte is prepended to scriptHash. A checksum is built over it by applying a double-SHA256 hash and truncating the result to the first 4 bytes. The checksum is then appended. Finally, the result is converted into a human-readable string using Base58 encoding [8]. The final result is a P2SH address.
*EC Public Key encoded as an uncompressed point on the secp256k1 curve according to the ANSI X9.62 standard

**Fig. 4.8.** P2PKH Address Computation
Fig. 4.9. P2SH Address Computation
4.5 Signatures

Signatures are a central cryptographic primitive in the Bitcoin protocol used to prove ownership of the private key corresponding to a public key or a Bitcoin address. For a transaction a signature is included in each of the transaction input scripts `scriptSig` to prove that the referenced transaction outputs are indeed owned by the claimant.

Whenever the claimant computes a signature for a transaction input, he specifies one of four signature types. The various signature types are listed in Table 4.10. Depending on his choice different parts of the transaction will be covered by the signature.

<table>
<thead>
<tr>
<th>Name</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIGHASH_ALL</td>
<td>0x00000001</td>
</tr>
<tr>
<td>SIGHASH_NONE</td>
<td>0x00000002</td>
</tr>
<tr>
<td>SIGHASH_SINGLE</td>
<td>0x00000003</td>
</tr>
<tr>
<td>SIGHASH_ANYONECANPAY</td>
<td>0x00000080</td>
</tr>
</tbody>
</table>

Table 4.10. Hashtype Values

The signing process can be split into two phases - a preparation phase and a finalization phase. Whilst the preparation phase is constant, the finalization phase depends on the type of signature that is applied. For the sake of brevity, only the preparation phase and the default signature type `SIGHASH_ALL` will be explained.

**Preparation**

The process for computing a signature is not completely straightforward. Before a signature is computed, the transaction that is to be signed undergoes several modifications. Figure 3.2 depicts an example of a transaction with two inputs and two outputs.
Step 1
In the first step a transaction copy $TxCopy$ of the transaction $TxNew$ containing the to be signed transaction input is created.

**Fig. 4.10. Signature Preparation - First Step**

<table>
<thead>
<tr>
<th>$TxNew$</th>
<th>$TxCopy$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>nVersion</td>
<td>nVersion</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>#vin</td>
<td>#vin</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>vin[0]</td>
<td>vin[0]</td>
</tr>
<tr>
<td>hash</td>
<td>hash</td>
</tr>
<tr>
<td>n</td>
<td>n</td>
</tr>
<tr>
<td>scriptSigLen</td>
<td>scriptSigLen</td>
</tr>
<tr>
<td>scriptSig</td>
<td>scriptSig</td>
</tr>
<tr>
<td>nSequence</td>
<td>nSequence</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>hash</td>
<td>hash</td>
</tr>
<tr>
<td>n</td>
<td>n</td>
</tr>
<tr>
<td>scriptSigLen</td>
<td>scriptSigLen</td>
</tr>
<tr>
<td>scriptSig</td>
<td>scriptSig</td>
</tr>
<tr>
<td>nSequence</td>
<td>nSequence</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>#vout</td>
<td>#vout</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>vout[0]</td>
<td>vout[0]</td>
</tr>
<tr>
<td>nValue</td>
<td>nValue</td>
</tr>
<tr>
<td>scriptPubkeyLen</td>
<td>scriptPubkeyLen</td>
</tr>
<tr>
<td>scriptPubkey</td>
<td>scriptPubkey</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>vout[1]</td>
<td>vout[1]</td>
</tr>
<tr>
<td>nValue</td>
<td>nValue</td>
</tr>
<tr>
<td>scriptPubkeyLen</td>
<td>scriptPubkeyLen</td>
</tr>
<tr>
<td>scriptPubkey</td>
<td>scriptPubkey</td>
</tr>
<tr>
<td>nLockTime</td>
<td>nLockTime</td>
</tr>
</tbody>
</table>
Step 2
In the second step all transaction input scripts in \textit{TxCopy} are removed and the signature script lengths (\textit{scriptSigLen}) are set to \texttt{0x00}.

Step 3
Next, the public key script (\textit{scriptPubkey}) of the referenced transaction output is taken, all occurrences of \texttt{OP\_CODESEPARATOR} are removed and the result is inserted into the signature script field (\textit{scriptSig}) of the to be signed input. Finally, the signature script length (\textit{scriptSigLen}) is updated to the length of the inserted script.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{signature_preparation.png}
\caption{Signature Preparation - Second and Third Step}
\end{figure}
**Hashtype SIGHASH_ALL**

In the default case no further modifications are made to the transaction copy \( TxCopy \). The rest is computed as depicted in Fig. 4.12. Firstly, a 4-byte hashtype (see Table 4.10) in little-endian notation is appended to \( TxCopy \). Next, an ECDSA signature, with double-SHA256 and the secp256k1 elliptic curve as parameters, is created. The intermediary result is here referred to as \( sig \). Finally, a signature in Bitcoin consists of the concatenation of \( sig \) and an appended hashtype \( hType \) truncated to the last byte. It is necessary to append the hashtype \( (hType) \) to the intermediary signature \( sig \) to signal verifying parties what signature type was applied.

![Signature Finalization - SIGHASH_ALL](image)

**Fig. 4.12.** Signature Finalization - SIGHASH_ALL
5 Blockchain

5.1 Structure

The blockchain is a record of all transactions that have occurred in the Bitcoin system and is shared by every node in it. It is used to infer how many Bitcoins are owned by an address (or public key) in the system at any point in time. The novelty of Bitcoin lies, among other things, in how the blockchain is structured in order to guarantee a chronological ordering of transactions and prevent double-spending in a distributed network.

As described in Sect. 3.1, every block in the blockchain refers to the hash of a previous block. This enforces a chronological order on the blockchain, since it is not possible to create a valid hash of the previous block header without its prior existence.

Furthermore, each block includes the solution to a proof-of-work puzzle of a certain difficulty. The computational power involved in solving the proof-of-work puzzle for each block is used as a voting scheme to enable all nodes in the network to collectively agree on a version of the blockchain. Nodes collectively agree on the blockchain that involved the highest accumulated computational effort to be created. Thus, modifying a block in the chain would require an adversary to recompute proof-of-work puzzles of equal or greater computational effort than the ones from that block up until the newest block. In order to achieve that, the adversary would have to computationally outperform the rest of the network, which is considered infeasible.

![Blockchain Diagram](image)

**Fig. 5.1.** Blockchain

Clearly, since nodes in the network compete in a randomized process to successfully solve the proof-of-work puzzle and gain a reward, there is a chance that two different blocks are mined simultaneously and the chain forks. In this case nodes will accept whichever block they have received first and continue building
the chain upon that block. If another block is found, then the branch that was
used will become the main blockchain. If this happens, all valid transactions
within the shorter chain are re-added to the pool of queued transactions. The
resulting structure resembles what is depicted in Fig. 5.1, the white block being
the first block ever mined, also referred to as the genesis block, the black chain
representing the main chain and grey blocks being orphans due to forking.

5.2 Mining

Procedure
The process of finding a valid block is called mining whereas nodes that mine
are called miners. As described in [4], mining nodes perform the following steps
in an endless loop:

1) Collect all broadcasted transactions and validate whether they satisfy the
miner’s self-defined policy. Typically, a transaction includes a transaction
fee that functions as an incentive for the miner to include it in the block.
However, if it does not, then it is up to the miner to decide what to do
with it.
2) Verify all transactions that are to be included in the block. Transactions
are verified as described in Sect. 4.2 and it is checked whether their inputs
have been previously spent.
3) Select the most recent block on the longest path in the blockchain, that is
the path that involves most accumulated computational effort, and insert
the hash of the block header into the new block.
4) Attempt to solve the proof-of-work problem as described below and broad-
cast the solution. Should another node solve the proof-of-work problem
before, then the block is first validated - the proof-of-work solution is
checked and all transactions included in the block are verified. If it passes
these controls then the cycle is repeated. Note that if there are transac-
tions that have not been included in the new block then they are saved
and included in the next cycle.

Proof-of-Work
During mining a miner attempts to find a block header whose double-SHA256
hash lies below the target value T. In order to succeed he needs a certain de-
gree of freedom in the block header that allows him to compute various hashes
without interfering with its semantics. Hence, two fields are used as a source of
randomness - the nonce field (\textit{nNonce}) in the block header itself and the coin-
base field (\textit{coinbase}) in the coinbase transaction, which indirectly changes the
Merkle root (\textit{HashMerkleRoot}) in the block header. The process of finding a
proof-of-work can then be divided into three steps:

1) Set the nonce field and the coinbase field to values of one’s choosing.

34
2) Compute the hash of the block header as
\[
\text{SHA256}^2(\text{nVersion}||\text{HashPrevBlock}||\text{HashMerkleRoot}||\text{nTime}||\text{nBits}||\text{nNonce})
\]

3) Reverse the byte order of the resulting hash and check whether its value $H$
lies below the current target value $T$ (stored in compact format in $nBits$):
\[
H \leq T
\]

This process is repeated for various values of $nNonce$ and $coinbase$ until a valid
solution is found. Typically, for efficiency reasons, all possible values of the nonce
field are evaluated before changes to the coinbase field are made.

6 Acknowledgments

I would like to thank Dr. Boris Škorić for his invaluable help in developing this
paper, the Bitcoin Core developers Pieter Wuille ($sipa$ on #bitcoin-dev), Luke-Jr
(#bitcoin-dev) and everyone else who has provided me with their feedback.
References

Appendix A: Data types

General data types

<table>
<thead>
<tr>
<th>Type</th>
<th>Size (bytes)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>int</td>
<td>4</td>
<td>Signed integer in little-endian.</td>
</tr>
<tr>
<td>uint</td>
<td>4</td>
<td>Unsigned integer in little-endian.</td>
</tr>
<tr>
<td>uint8_t</td>
<td>1</td>
<td>Unsigned integer.</td>
</tr>
<tr>
<td>uint16_t</td>
<td>2</td>
<td>Unsigned integer in little-endian.</td>
</tr>
<tr>
<td>uint32_t</td>
<td>4</td>
<td>Unsigned integer in little-endian.</td>
</tr>
<tr>
<td>uint64_t</td>
<td>8</td>
<td>Unsigned integer in little-endian.</td>
</tr>
<tr>
<td>uint160</td>
<td>20</td>
<td>Unsigned integer array uint32_t[] of size 5. Used for storing RIPEMD160 hashes as a byte array.</td>
</tr>
<tr>
<td>uint256</td>
<td>32</td>
<td>Unsigned integer array uint32_t[] of size 8. Used for storing SHA256 hashes as a byte array.</td>
</tr>
</tbody>
</table>

Variable length integers (VarInt)

Integers in Bitcoin can be encoded depending on the value in order to save space. Variable length integers always precede vectors of a type of data that may vary in length. An overview of the different variable length integers is depicted below.

<table>
<thead>
<tr>
<th>Value interval</th>
<th>Size (bytes)</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>$[0, 2^8 - 3]$</td>
<td>1</td>
<td>uint8_t</td>
</tr>
<tr>
<td>$[2^8 - 3, 2^{16})$</td>
<td>3</td>
<td>0xFD followed by the value as uint16_t</td>
</tr>
<tr>
<td>$[2^{16}, 2^{32})$</td>
<td>5</td>
<td>0xFE followed by the value as uint32_t</td>
</tr>
<tr>
<td>$[2^{32}, 2^{64})$</td>
<td>9</td>
<td>0xFF followed by the value as uint64_t</td>
</tr>
</tbody>
</table>
Appendix B: Calculations

Dust Transactions
A transaction is defined as “dust”, if any of the transaction outputs spends more than 1/3rd of its value in transaction fees. More precisely, a transaction is considered “dust” if any of its transaction outputs satisfies the inequality

\[
\frac{\text{TxFeeRate}}{1000} \cdot \frac{(\text{TxOutSize} + 148)}{\text{nValue}} < \frac{1}{3}
\]

where \text{nValue} is the transaction output value, \text{TxOutSize} is the transaction output size in bytes and \text{TxFeeRate} is the transaction fee rate in Satoshi per kB. Currently, the default transaction fee rate is set at 1000 Satoshi per kB and a typical transaction output size of 34 bytes, thus resulting in a required transaction output value of at least 546 Satoshi.