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Staking for institutions

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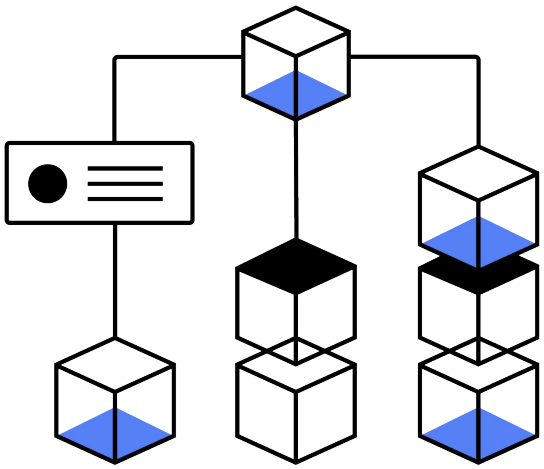
Participate in staking and collect crypto rewards

Many digital asset protocols incentivize participation by providing rewards for contributing to network security and decentralization.

Staking digital assets

What is staking?

Staking is the process whereby a digital asset is locked for a period of time on a blockchain network in order to support consensus and confirm transactions. In return for contributing this value to the network, many blockchains provide rewards.



Participants willingly assign or "lock up" their assets with a transaction validator for a period of time. By participating in staking, crypto asset holders can support the security and decentralization of the blockchain network.

Distributed network consensus

What is proof-of-stake?

Some crypto networks, such as Ethereum, use a mechanism called proof-of-stake (PoS) to achieve decentralized consensus.

Through staking, the PoS consensus mechanism processes transactions and allows for the creation of new blocks on a blockchain. This is in contrast to proof-of-work (PoW) networks, like Bitcoin, where transactions are validated through the process of mining, which involves using specialized hardware and abundant computational power to solve complex mathematical problems.

PoS participants provide proof of their commitment to the network by staking a certain amount of crypto through validators—network nodes that verify blocks of transactions in order to add them to the chain—and then collect rewards for having participated in the decentralized consensus process for block creation.

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Institutional participation as a network validator

How does staking work?

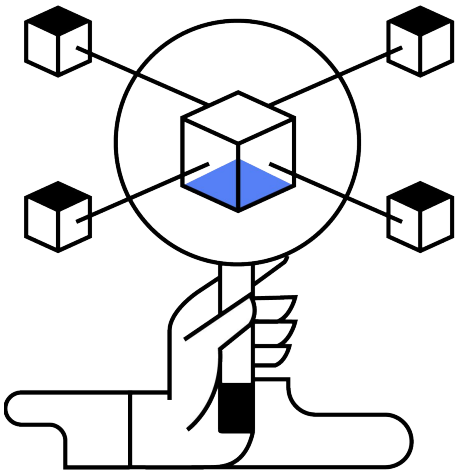
Staking begins when network participants voluntarily deposit, or lock up, their assets for a set term. From those participants, the protocol chooses validators to propose and attest new blocks of transactions to be added.

With more assets locked up, a participant is more likely to be chosen as the validator that collects additional network tokens.

While good behavior, such as actively participating and contributing to the security and stability of the network, is encouraged through rewards, protocols disincentivize bad behavior on the network with penalties that take away a portion of the participant's staked assets.

In many networks, asset holders of any size can participate in staking. Institutions, such as venture capital firms, family offices, or hedge funds can hold assets, take part in the staking process, and collect rewards.

Institutional interest in digital assets is a growing trend as 74% of institutional investors plan to purchase digital assets in the future, compared to 71% a year earlier.[1] To begin staking, institutions must first own digital assets that can be staked. This is best achieved by buying and holding the assets on a secure, regulated platform that supports staking.



Any staked assets remain in the institution's control. Institutions can withdraw staked assets, although each blockchain has a different waiting, or "unbonding" period, that ranges from days to weeks. Unbonding is the procedure of retrieving locked assets from a blockchain network that have been staked by a validator or delegator after a predetermined time frame has passed.

Unstaking refers to the process of withdrawing funds from a validator, and assets are subject to applicable protocol-imposed unbonding periods. Institutions always remain in control of when to unstake their assets. As with most on-chain transactions, unstaking may incur a transaction fee depending on the blockchain network.

[1] Fidelity Digital Assets Research, "Institutional Investor Digital Assets Study: Key Findings," October 2022. https://www.fidelitydigitalassets.com/sites/default/files/documents/2022_Institutional_Investor_Digital_Assets_Study.pdf)

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Unique applications for institutions

What are the use cases?

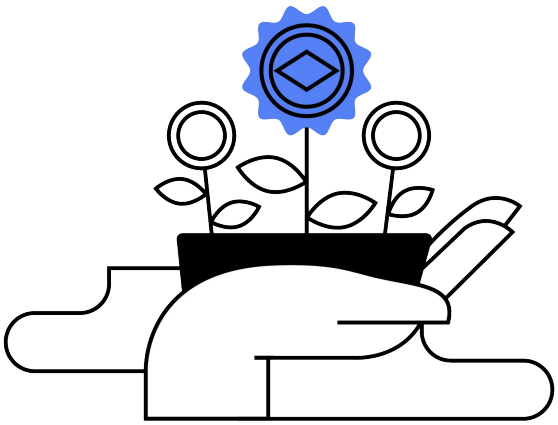
There are three primary use cases that staking provides to institutions:

- **Collect crypto rewards:** Institutions can collect crypto rewards when they stake their cryptocurrency on a PoS blockchain network.
- **Support the security and decentralization of blockchain networks**: By participating in staking, institutions can help to increase the security and decentralization of a blockchain network. This can be particularly important for institutions that are involved in the development or use of blockchain-based applications and services, as a secure and decentralized network is crucial for the success of these applications.
- **Participate in the governance of a blockchain network:** Some staking platforms allow for stakers to participate in governance proposals. This can give institutions the opportunity to shape the direction and policies of a network, and potentially have a say in important decisions related to the network's development and management.

Significance of staking for protocols

Why do protocols offer staking?

Protocols offer staking as a way to incentivize network participants to maintain a certain amount of the protocol's native tokens and secure the network. Network security is typically increased as a greater number of participants stake assets.



Penalties such as slashing can disincentivize malicious behavior. For example, protocols can enable slashing—reduction in a staker or validator's staked amount—for manipulating the network or causing downtime.

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Risks & misconceptions

What do institutions need to know before they stake?

Staking involves risks, including but not limited to:

Price volatility

The value of a staked asset can be highly volatile and is not immune to shifts in the market

Security risks

Staking without a qualified custodian can come with security risks due to lack of regulatory oversight

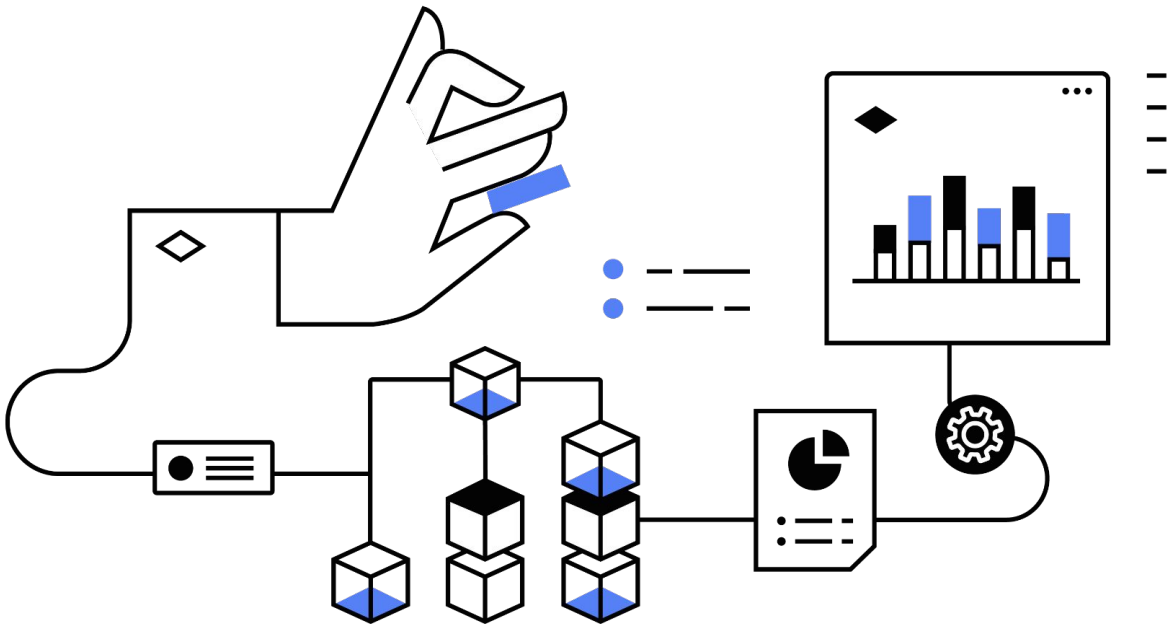
There are also a number of misconceptions about staking, such as:

All crypto can be staked

Only certain blockchain networks, like PoS networks, allow staking, unlike PoW networks

Staking is the same as mining

Mining and staking are different methods for confirming transactions and securing a network



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Where is it safe for institutions to stake?

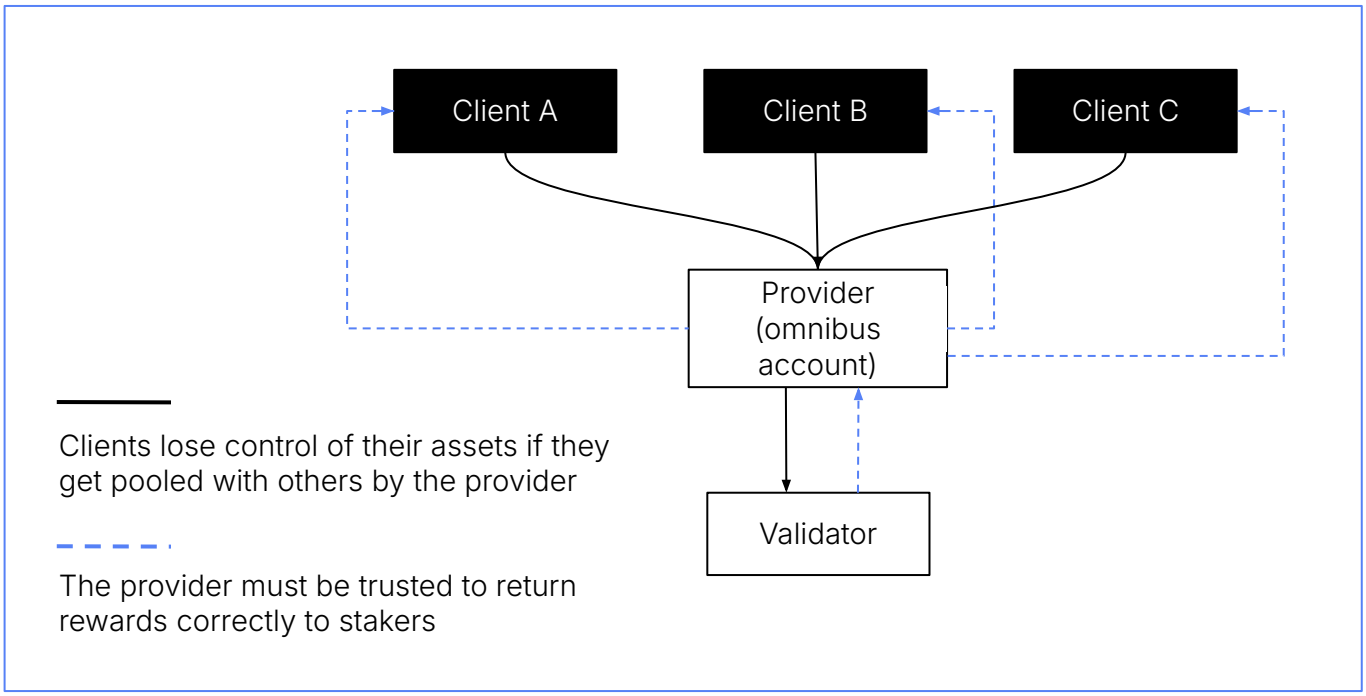
Amid growing intrigue around staking from outside and within the crypto ecosystem, institutions should look for staking partners that are compliant and allow them to stake directly from their own controlled addresses, so they can maintain discretion over whether or not to stake, and how much to stake.

Staking-as-a-service programs: Avoid giving up control by pooling assets

Specifically, institutions should avoid "staking- as-a-service" offerings. Staking-as-a-service is a method offered by some providers, which encourage institutions to collect rewards by delegating their crypto assets to a third-party validator node via a staking pool, where assets are staked on their behalf.

This approach may expose clients to the security and compliance risks carried by the platforms offering these services.

Staking through a staking-as-a-service product relinquishes asset control since assets are pooled with other participants' assets— making traceability of the staked amount more challenging. Under such conditions, institutions can lose control of assets and have very little subsequent protection should the pool operator engage in non-compliant, unsecure, or unregulated behavior.



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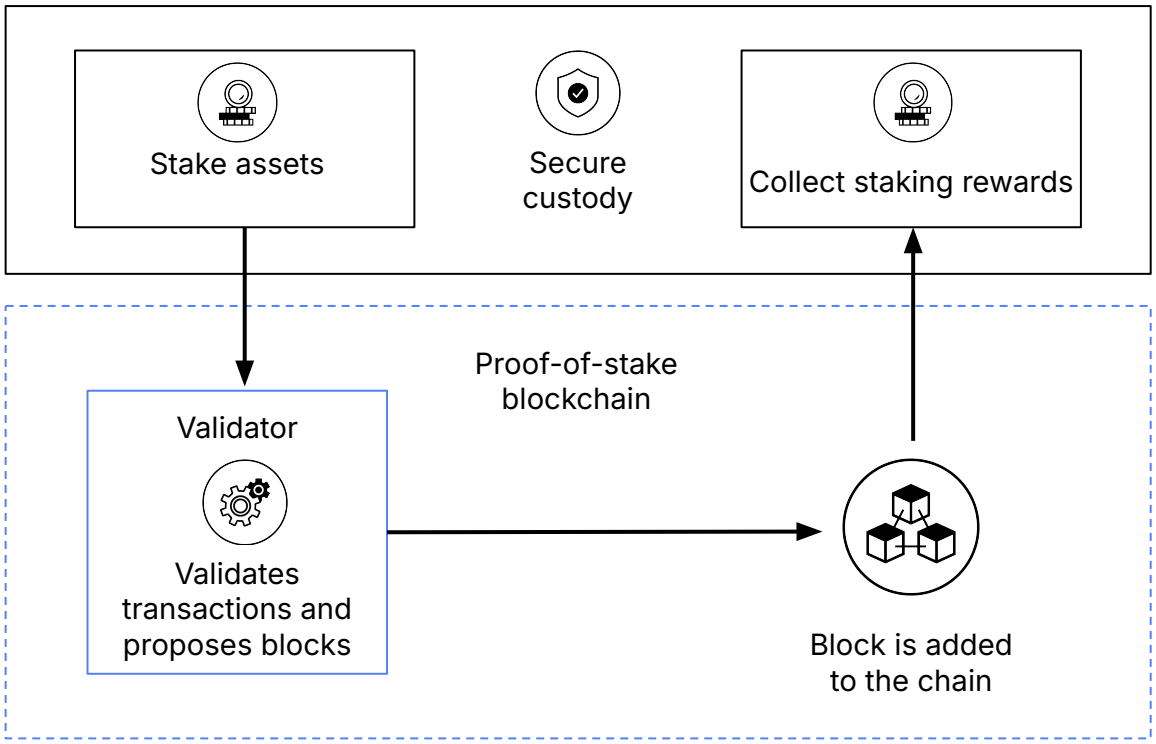
Staking from secure custody: Collecting rewards by validating transactions

Staking with a qualified custodian can provide increased security and protection for an institution's staked assets, as they are held by a regulated entity. This reduces the risk of theft or loss due to technical or compliance failures.



Before selecting a staking partner, institutions should confirm they perform the following:

Prohibit commingling of assets

Client and firm assets should never be commingled—they should be maintained separately to ensure safekeeping of assets in distinct accounts.

Disclose related-party transactions

Related-party transactions should be fully disclosed to prevent conflicts of interest, self-dealing, fraud, or the concealment of potentially harmful financial activities.

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Segregate functions

Partners should segregate custody and exchange functions, with assets safeguarded by a qualified custodian.

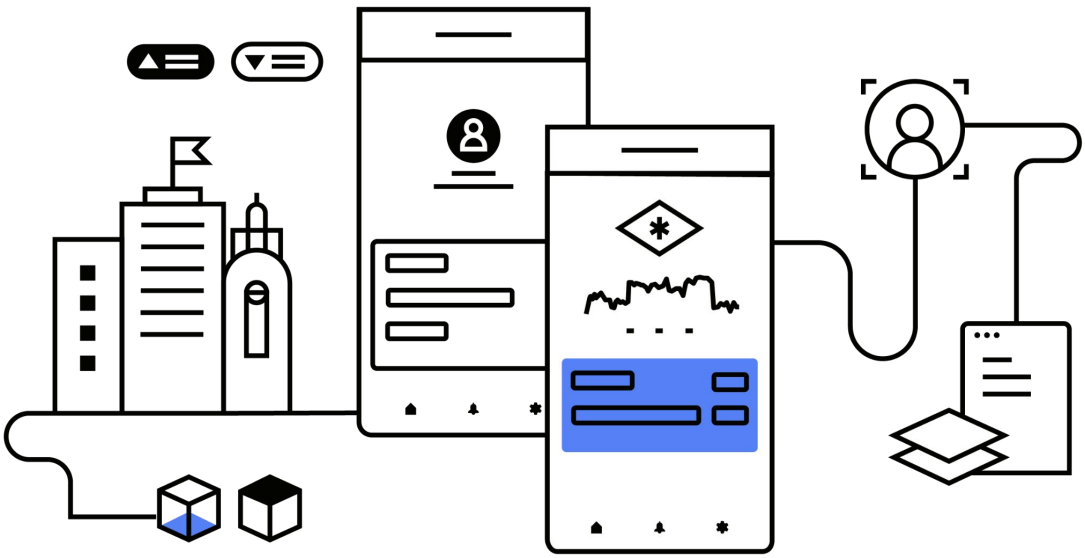
Implement risk controls

Robust financial risk controls must be implemented and audited. Client funds must not be transferred without their approval.

The future of staking

As the use of blockchain technology continues to grow and mature, more institutions are likely to explore the benefits of staking. This could lead to an increase in the number of institutional players in the staking market, as well as an increase in the overall size and liquidity of markets.

In addition, the development of new staking infrastructure and platforms that are specifically designed for institutional holders is likely to make it easier for institutions to participate in staking.



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Why secure custody matters

What do institutions need to securely stake and collect rewards?

Institutions should look to stake with a qualified custodian, and it should be easy and efficient for institutions to collect rewards. Ensure the custodian checks all of the following boxes:

- ☐ Offers nationally regulated staking, such as through a U.S. federally chartered bank
- ☐ Stakes assets directly with automatic re-delegating of rewards
- ☐ Allows staking rewards to be sent directly from the applicable protocol, and not from the custodian
- ☐ Executes compliance procedures in accordance with AML and KYC rules
- ☐ Adheres to capital adequacy requirements
- ☐ Ensures assets are secured in separate client accounts and verifiable on-chain
- ☐ Implements measures to protect institutions from security threats
- ☐ Delivers auditable accounting of assets
- ☐ Does not offer staking-as-a-service; clients stake their own assets from the safety of their own segregated vault
- ☐ Keeps assets bankruptcy remote and not part of a debtor estate in the event of bankruptcy proceedings

To learn about staking with Anchorage Digital, visit anchorage.com. To start a conversation, please contact anchoragesales@anchorage.com.

About Anchorage Digital

Anchorage Digital is a global crypto platform that enables institutions to participate in digital assets through custody, staking, trading, governance, settlement, and the industry's leading security infrastructure. Home to Anchorage Digital Bank N.A., the first federally chartered crypto bank in the U.S., Anchorage Digital also serves institutions through Anchorage Digital Singapore, which is licensed by the Monetary Authority of Singapore; Anchorage Digital New York, which holds a BitLicense from the New York Department of Financial Services; and self-custody wallet Porto by Anchorage Digital. The company is funded by leading institutions including Andreessen Horowitz, GIC, Goldman Sachs, KKR, and Visa, with its Series D valuation over $3 billion. Founded in 2017 in San Francisco, California, Anchorage Digital has offices in New York, New York; Porto, Portugal; Singapore; and Sioux Falls, South Dakota. Learn more at anchorage.com, on Twitter @Anchorage and on LinkedIn.

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