

POSITION CLARITY · FIELD GUIDE

# Staking and *Yield*

Where crypto yield actually comes from, the flavours of staking, and the catches each one carries. Built for understanding, not advice. If you cannot see where a yield comes from, that is the risk.

Staking

Rewards

Lock-up

Risk

Position Clarity

An educational reference. Made in Canada.

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# What staking actually is

Staking is committing your coins to help run a certain kind of network, and being paid for it. It is one real source of yield, and it is worth understanding before any of the fancier ones.

**Proof of Stake.** A way for a network to agree on its records by having participants put coins on the line, rather than burning electricity. How Networks Agree covers this in full.

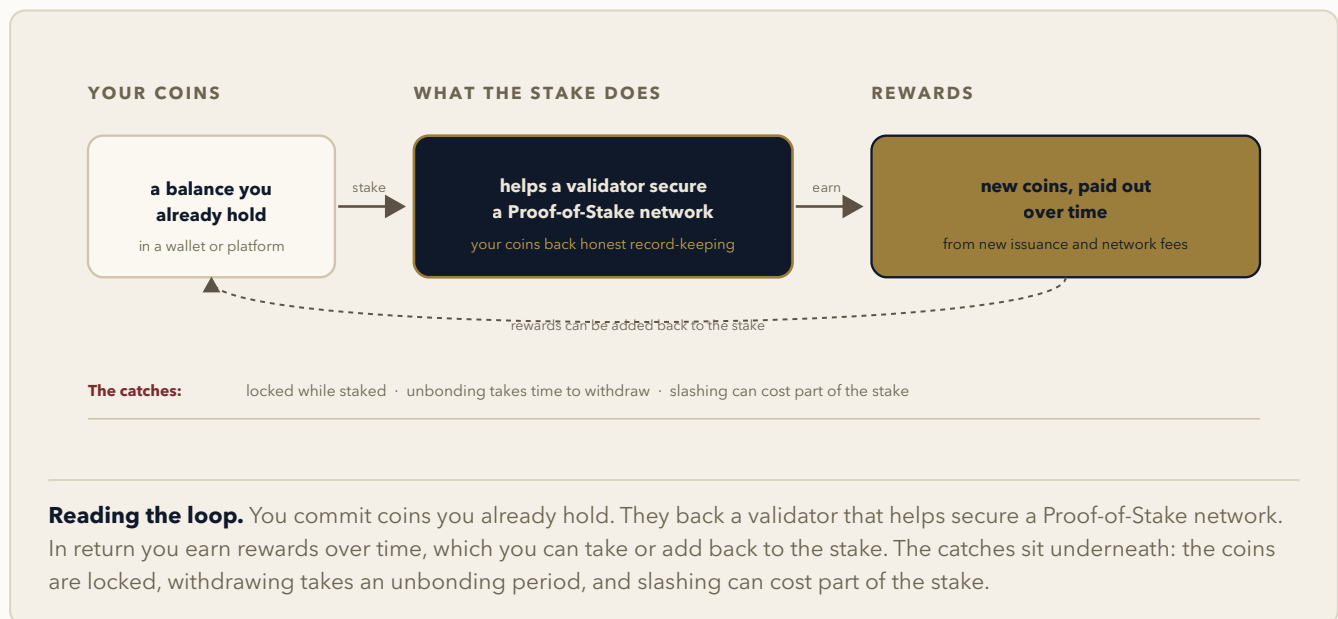
**Validator.** A participant that checks transactions and helps keep the shared record honest. Your staked coins back a validator's good behaviour.

**Staking.** Locking up coins to support a Proof-of-Stake network. In return you earn rewards, usually paid in the same coin.

**Rewards.** New coins paid out over time, from fresh issuance and network fees. Often quoted as a yearly rate.

**Lock-up and unbonding.** Staked coins are committed. **Unbonding** is the waiting period to unstake before you can move them, which can be days.

**Slashing.** A penalty that destroys part of a stake if the validator behaves badly or fails. It is rare, but real.



# Where the yield comes from

Crypto uses the word "yield" for several different things. They are not the same, and the differences are the whole story. The honest question for any yield is simple. Who is paying me, and why.

SOURCE	WHO PAYS YOU, AND WHY	THE CATCH
<b>Protocol staking</b>	The network itself, through new issuance and fees, for helping secure it.	<i>Lock-up, unbonding delays, and slashing. Rewards in a coin whose price moves.</i>
<b>Lending</b>	A borrower, through interest, for the use of your coins.	<i>The borrower or platform can default. You are a creditor, not a saver.</i>
<b>Liquidity providing</b>	Traders, through fees, for supplying coins a market can trade against.	<i>Impermanent loss, the gap that opens when the two assets move apart, plus smart-contract risk.</i>
<b>Rewards or incentives</b>	A project, through its own token, to attract users early on.	<i>The reward token can fall faster than the yield pays. Often temporary.</i>
<b>A yield you cannot trace</b>	Unclear. If no one can tell you the source, assume you are the source.	<i>Unknown source is the risk. Many collapses started as a yield nobody could explain.</i>

**Smart contract.** A program that runs on a blockchain and moves funds by its own rules. Powerful, and only as safe as its code.

**Impermanent loss.** A loss a liquidity provider can take when the two assets they supplied change in price relative to each other. It becomes real if you withdraw at the wrong time.

*Every honest yield is payment for a risk or a service. If you cannot name the risk or the service, you have not found a free return. You have found the risk.*

# The flavours of staking

Even plain protocol staking comes in a few forms. They differ in who runs the validator, who holds the keys, and how easily you can get out.

HOW	WHAT IT MEANS	TRADE-OFF
<b>Solo or native</b>	You run or directly delegate, holding your own keys.	<i>Most control. Most setup and responsibility.</i>
<b>Exchange or custodial</b>	A platform stakes on your behalf and pays you a share.	<i>Easiest. You rely on the platform, and it takes a cut.</i>
<b>Liquid staking</b>	You stake and receive a token that represents the staked position, which you can move while it stays staked.	<i>Keeps funds usable, adds smart-contract risk and a token that can trade off its value.</i>
<b>Pooled</b>	Many people combine coins to stake together.	<i>Lower entry, shared operator risk and shared rules.</i>

*Custodial staking ties back to the custody spectrum in Wallets and Custody. If a platform stakes for you, it holds the keys, and your access depends on that platform.*

# The risks, plainly

None of these are reasons to do or avoid anything. They are the trade-offs to see clearly before you decide for yourself.

THE RISK	WHAT IT MEANS IN PRACTICE
<b>Lock-up and unbonding</b>	<i>Your coins are not liquid while staked. Getting out can take days, and prices can move in that window.</i>
<b>Slashing</b>	<i>A validator that misbehaves or goes offline can cost stakers part of the stake. Rare, not impossible.</i>
<b>Operator or platform risk</b>	<i>If someone runs the validator or holds the keys for you, you depend on them doing it well and staying solvent.</i>
<b>Smart-contract risk</b>	<i>Liquid staking and most yield strategies run on code. A flaw can drain funds, regardless of the headline rate.</i>
<b>Price risk</b>	<i>A high yield in a coin that falls can still be a loss. The rate and the coin's price are two separate things.</i>
<b>The yield that is too good</b>	<i>Unusually high, steady, guaranteed returns are the classic warning sign. Trace the source before anything else.</i>

**WORTH REMEMBERING** A yearly rate, often shown as APR or APY, describes the reward, not the safety. **APR** is the simple yearly rate. **APY** assumes the rewards are compounded. Neither tells you whether the source is sound.

# The Canadian wrinkle

Staking rewards and other crypto yield can have tax and record consequences in Canada. How exactly depends on the specifics, and that is a determination for a professional, not a guide.

The pattern most people need to understand is this. Receiving rewards is an event worth recording, and disposing of crypto later is a separate event. The value when you receive a reward, and the value when you later sell or swap it, can both matter. The treatment can differ depending on whether activity looks like a personal investment or something more like a business, which is exactly the kind of line a CPA draws, not a guide.

## WHERE THIS POINTS

This guide does not tell you how your staking is taxed, because that depends on your situation. It tells you to keep good records and to ask. The Canadian Crypto Tax Reference covers the general rules, and your CPA covers your case.

# What to write down

If you stake or earn yield, a short private record saves a lot of guessing later, for you and for anyone who helps you. As always, you record where things are, never the secrets that control them.

RECORD THIS	NEVER RECORD THIS
<b>What is staked or earning, on which platform or in which wallet.</b>	<i>The seed phrase or private key.</i>
<b>Whether it is locked, and the unbonding or notice period.</b>	<i>Passwords or PINs stored with everything else.</i>
<b>Who runs the validator or platform, and how rewards are paid.</b>	<i>Recovery words, anywhere digital or shared.</i>
<b>The dates and values of rewards received, for your records.</b>	<i>Anything you would not want a stranger reading.</i>

## THE BOUNDARY, REPEATED ON PURPOSE

Position Clarity never sees, requests, or stores any of this. A record of where things live is yours to keep and yours alone. Store recovery material by separate, established methods.

**Educational only.** This guide explains how staking and crypto yield work and how to organize a private record of your own. It is not investment, financial, tax, legal, or accounting advice, and it does not tell you what to buy, sell, hold, stake, or report. Tax treatment depends on your situation. For decisions about your own situation, consult qualified professionals. Position Clarity never asks for seed phrases, private keys, or passwords.