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### **A more proportionate banking prudential framework (“The Discussion Paper”)**

We welcome the opportunity to provide feedback on APRA’s Discussion Paper. We have previously provided a submission to the Council of Financial Regulators review into the competitive issues faced by small and medium banks, in which we acknowledged our support for an extension to the APRA’s tiered regulatory approach. We are pleased to see APRA elaborate on this approach and we offer some further comments.

### **About Revolut Australia**

Revolut Australia is part of the global Revolut group (Revolut), a financial technology group of companies offering a range of financial services to retail and business customers in over 40 countries. Revolut was founded in 2015 in the UK and now has over 70 million retail customers and 10,000 employees globally. Revolut is one of the UK’s fastest growing technology companies. Revolut operates as a bank within the European Zone, supervised by the European Central Bank and is in the process of operationalising its UK bank licence which was granted (with restrictions) by the Bank of England in 2024.

Revolut Australia received its Australian Financial Services Licence in May 2020 and launched to the public in August 2020. Revolut Australia also holds an Australian Credit Licence. We currently offer a range of financial services including payment, foreign exchange, investments in stocks, commodities and crypto, and personal loans. Overall, we have in excess of 1 million Australian customers.

Although we do not yet have bank status in Australia, our local management team and directorship consists of individuals with many years of banking experience across banks of various sizes.

Revolut's vision is to reinvent how the world does money by building the world's first truly global financial superapp. We believe in empowering our customers by giving them financial freedom.

## **Response to Discussion Paper**

### **1. Proposal 1 - Introduction of a Third Tier**

Revolut Australia supports the introduction of a multi-tiered system of prudential regulation. We agree that there are clear differences in risk associated with the largest ADI's, mid-sized ADI's and their smaller competitors as well as clear differences in the resources available to the smaller banks to achieve prudential compliance. Assuming the grant of a banking licence, we expect that Revolut Australia will enter the banking market as a Non-SFI ( proposed **Tier 3** ) with an ambition to progress into the standard SFI ( proposed **Tier 2** ) category.

#### **1.1 Tiering Levels**

With reference to Diagram 5 in the Discussion Paper, we think that APRA's asset based Tiering levels represent a sensible approach, applying the tiering cut-offs at the clearest points of current asset differentiation. We think that the \$300b is a sensible level for the MSFI (**Tier 1**), capturing the biggest 5 competitors, each of which represent substantial systemic economic influence and which are multiple times the size of the next largest competitor.

In respect of the proposed \$30b threshold for Tier 2, we note that there are 2 competitors which would be sitting near the threshold and it is likely that with some market growth and future inflation there are likely to be some additional competitors approaching that level in the next several years. We would suggest that raising that threshold to \$40b would provide greater certainty to current competitors without changing the structure and principle of the proposal. Within APRA's proposed 3rd Tier there is still significant divergence in scale, with a significant number of ADI's with assets of less than \$5bn. These are typically regional or industry focussed banks or newly emerging banks. We think the arguments for special consideration within Prudential Standards is the strongest for this cohort of micro banks who pose the least system risk. We would suggest that APRA consider a special category, or even a fourth Tier for these micro banks.

We agree that APRA should retain the power to declare an ADI as an SFI notwithstanding that it has not reached the asset based criteria, although we suggest that APRA could provide greater guidance over the "complexity" and "group membership" elements that would be considered in such a decision.

### **2. Proposal 2 - Providing more time**

We note that the two banks which would be close to the new threshold have already been within the SFI threshold and would have been complying with current regulatory standards applicable to SFI's. We would suggest that those entities would only require additional time in respect of future policy change. If an outcome of this proposal is to give some immediate relief to those entities, then we think our suggestion of a \$40bn threshold would provide that relief.

In respect to the general transitional period, we believe that 12 months in most cases is reasonable to comply once the threshold is reached. Every ADI should be able to predict well in advance of 12 months when they are likely to cross that threshold and have appropriate plans in place to implement new compliance requirements. We note that there may be capital implications with the movement between tiers, in particular where smaller banks may lose the benefits of simplification (e.g. in the calculation of the IRBB capital requirement under APS 117). We suggest that where transition between tiers requires additional capital, that APRA consider longer periods where the capital addition is material and the ADI establishes a need for an extension.

### **3. Proposal 3 - APRA Policy development**

We strongly support APRA seeking more opportunities to differentiate prudential requirements based on the newly proposed Tiers.

We think it appropriate that ADI's within the highest category should be subject to the strictest supervisory standards. This tiering would allow APRA to increase certain prudential requirements beyond today's standards (if doing so lowered the risk to the Australian economy) without imposing extra burden on competitors in the lower tiers who pose low or minimal systemic risk.

The tiering would also allow APRA to look at opportunities to alleviate regulatory burden for Tier 3 ADI's beyond the SFI / Non-SFI distinctions that have already been created within several prudential standards. In the short term, we think there is scope for greater differentiation across the 3 tiers that could be applied to:

**CPS 220 Risk Management:** The standard could benefit from different independent review cycles for different tiers and different expectations of stress testing. Requirements around specific risks, such as the requirement to include climate change as a material risk, could be differentiated with smaller banks unlikely to have the industry exposure of larger banks to this risk.

**CPS 230 Operational Risk Management.** For example in respect of Critical Operations and Tolerance Levels, new tiering within the Standard could provide for mandatory identification and near zero tolerance levels for system-wide critical operations for Tier 1 ADIs; a focus for Tier 2 on operations affecting the entity's own viability; and for Tier 3 a standardised safe harbour list of critical operations for a standard bank (rather than the current guidance list of minimum processes.) The list for Tier 3 ADI's could bundle specific processes into process sets (e.g. "core banking cluster" which would reduce the burden of conducting separate tests for each process (payments, deposit taking). APRA could also standardise stress testing scenarios for Tier 3 ADI's, or micro ADI's with similar business models.

**CPS 234 Information Security** - For example Tier 3 banks or micro banks could have a reduced, standardised requirement for 3rd party assessment, including management of outsourced information security controls (particularly where those parties are themselves

regulated or have achieved SOC2 or ISA accreditation), and a simplified pre-defined asset inventory identification / classification. Conversely, the Standard could apply more detailed expectations of control testing by Tier 1 ADIs.

While APRA may already apply a “proportionality” lens to its expectations of the application of some of these Standards (see for example CPG 230), the three Tier system would enable APRA to provide better clarity on its expectations for each tier within the Standard, or within its guidance, while still allowing for some proportionality or risk based approach. If our suggestions above are considered unsuitable for a top end Tier 3 bank, then we suggest APRA consider such suggestions within the application of the standards to micro banks, or alternatively, the introduction of a 4th Tier.

We recommend in the longer term that all Standards be considered for tiered differentiation in line with their review cycles.

Beyond the micro sector, we think APRA should give extra consideration to new entrants within its licensing guidelines. For example, current capital requirements for new entrants in our opinion are prohibitive for new competitors, where the risk of failure can be better managed through wind-down and resolution planning. In addition we think new competitors would benefit from longer periods to become fully compliant with the more onerous provisions of CPS 230, allowing them to scale their internal resource requirement at a more viable rate.

Overall, we think the proposals will help support competition in the banking sector by levelling the playing field between the largest competitors with the resources to undertake more rigorous compliance efforts and the smaller competitors who lack those economies of scale. We think the adjustments we have suggested would improve that competition further.

We trust that these comments have been of use to APRA in its considerations. If you would like any further information or elaboration, please contact [REDACTED] on [REDACTED]

Regards

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