

UK National Security and Investment Act Update 2025

30 July 2025

On 22 July 2025, the UK Cabinet Office published the fourth Annual Report on the UK National Security and Investment Act (NSIA).¹ In parallel with the publication of the Annual Report, the Cabinet Office also announced a consultation proposing the first significant changes to the UK investment screening regime since its introduction in 2022.

Highlights from the Annual Report are presented below, together with a summary of the changes proposed in the consultation and some remarks on the government's enforcement record over the last year.

Highlights From the Annual Report

- *Defence continues to dominate.* According to the Annual Report, 56% of all notifications concerned activities in the defence sector. Like many investment screening regimes, scrutinizing investments in the defence sector is a clear priority for the UK government and an area that is in even greater focus given the current geopolitical climate. Transactions involving critical suppliers to government, where the supplier holds a level of UK security clearance, and suppliers of military and dual use goods, made up the top three sectors prompting notifications, representing 21% and 19% of all notifications, respectively.
- *Higher number of filings made but a similar proportion called in for a detailed review.* A total of 1,143 notifications were received by the Investment Security Unit (ISU) – the body tasked with overseeing the filing and review process – in the year to 31 March 2025, up from 906 notifications in the previous 12-month period. Fifty-six transactions were called in for a more detailed review during the year, up from 37 in the previous period (but representing a broadly similar proportion of between 4-5%).

- *UK acquirers most frequently called in but Chinese acquirers still of interest.* Of the 56 transactions called in for in-depth review, 48% involved UK acquirers. However, Chinese investors continued to be scrutinised closely, representing 32% of all deals called in, with US investors ranked third, making up 20% of all transactions called in. Whilst the nationality of the acquirer is an important consideration, these figures reflect our experience that the activities undertaken by the target are central to the assessment as to whether or not a transaction is called in – meaning there are some deals where the target’s activities are so sensitive that it will be called in, regardless as to whether the acquirer is from a ‘friendly’ allied country of the UK, or indeed if the acquirer is UK-based.
- *Voluntary notifications and non-notified transactions also called in.* Whilst the majority of filings concern mandatory notifications, the ISU received 134 voluntary notifications, of which 20 were called in for detailed review. In addition, seven non-notified transactions were also called in and subject to detailed review. This number is almost double the number of non-notified transactions that were called in last year, showing the ISU is increasingly monitoring the market for deals that should have been notified.
- *Absence of penalties for completing without approval.* The report refers to 60 instances where a transaction had been completed without approval, but no penalties were issued for failure to notify (and no such penalties have been imposed under the regime to date). The ISU continues to take a constructive approach, instead asking parties to provide reassurance to the government that steps had been taken to prevent any reoccurrence. This is considered the more business-friendly approach, which aligns with the UK’s interests in welcoming investment.
- *Review periods; quick for most, but increasingly lengthy for transactions that are called in.* As in the previous year, all accepted notifications were either called in or cleared within the statutory 30-business-day review period (albeit the ISU almost always requires the full 30-business-day period). However, where a transaction was approved subject to commitments, it took on average an additional 70 business days from the point of call in to complete the review. This is a marked increase on the previous 12-month period, where it took on average an additional 34 business days to approve a transaction subject to commitments. The Annual Report comments that, given the small number of commitment decisions in the last 12 months, no conclusions should be drawn, but it’s clear that parties need to allow sufficient timing in deal documentation where there is a risk the transaction may be subject to a call-in notice.

Enforcement Record

In the period covered by the Annual Report, 16 approvals were issued subject to conditions and one transaction was subject to an order to unwind. The order to unwind concerned an investment in UK-developed semiconductor technology that occurred in December 2021, just before the NSIA came into force. However, pursuant to the look-back procedures provided for under the NSIA, the government called in the transaction and issued an order forcing the Chinese-linked acquirer to divest its controlling stake. This case prompted media interest in relation to the alleged supply of semi-conductor chips to Russia from the UK.

The government required remedies in deals across a variety of sectors, including defence, telecommunications, AI, dual-use electronics and energy. Common conditions have included requirements to (i) maintain strategic capabilities/security of supply in the UK or ensure continued UK ownership of the relevant companies, (ii) protect, provide access to, or restrict sharing sensitive information, technology or data, including the requirement to appoint chief information and security officers, (iii) introduce or increase security vetting of key personnel, (iv) create a UK board of directors with approval authority over strategic decisions, (v) obtain the government's approval to appoint specific operators, (vi) maintain UK headquarters or presence and to protect/expand employees and local R&D capabilities, and (vii) notify the transfer of assets out of the target.

In addition to the above, we have seen the government impose more sophisticated remedies, including a prohibition on developing, manufacturing or marketing certain types of technology and also a prohibition against partnering with entities incorporated in, or whose ownership directly or indirectly is incorporated in, jurisdictions outside of a pre-approved list.

It is also noteworthy that small minority investments below the level at which a mandatory filing obligation arises (25%) have been subject to remedies, including investments of 24.5% and one as low as 12.8%, which the ISU concluded was sufficient for the investor to hold 'material influence' over the target (the lowest form of control that the government can review). Parties should therefore be aware that small investments in sensitive targets can equally be subject to in-depth scrutiny and possible remedies.

Potential Reforms

The previous Conservative government had mooted possible changes to the NSIA regime, and following the publication of current Labour government's Industrial

Strategy in June of this year, the Cabinet Office has now promised to consult on several significant changes:

- *Creating new standalone sectors in relation to Critical Minerals and Semiconductors.* Both of these activities are currently covered within broader sectors under the existing regime, but the government is proposing to create separate sectors in relation to critical minerals and semiconductors, respectively. The consultation explains this will help clarify which activities are in scope and that these changes are only expected to result in a small increase in mandatory filings (up to 10 more filings per year).
- *Updating the scope of existing sectors, including AI, communications, critical suppliers to government, data, energy, suppliers to the emergency services and synthetic biology.* Whilst many of the proposed changes to these existing sectors are small, several have the potential to materially increase or decrease the number of deals that could be subject to a mandatory filing requirement. In particular, the new AI schedule would make clear that consumer AI used as a tool within internal processes, without any further material R&D of the technology by the licensee, would not be in scope. In relation to critical suppliers to government, the consultation proposes to include further areas of security clearance and recipients of confidential information who would be in scope – including Facility Security Clearance (required for certain defence contractors) and recipients of 'OFFICIAL SENSITIVE' information. The consultation estimates these changes will increase the number of mandatory filings, although only by approximately 10 per year. Finally, as regards data centres, the changes proposed would bring into scope third-party operated data centres including those offering data processing and data storage – this would include cloud service providers and managed service providers, i.e., those who offer or resell Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS). This change is similarly expected to increase the number of mandatory filings by approximately 10 per year.
- *Bring the water sector into the NSIA regime.* Unlike many regimes, the NSIA is unusual in that investments into the water sector are not covered by the mandatory notification regime under the UK NSIA. The government is now proposing to change this, creating a new water sector within the scope of the mandatory regime. This will require approvals for relevant investments in a company that has statutory powers and duties to supply water and/or sewerage services to premises within a specified geographical area by virtue of an appointment under Section 6 of the Water Industry Act 1991 (a 'water and/or sewerage undertaker'). The proposal excludes notification for changes in ownership with companies operating solely as a retailer in the non-household retail market for water. The consultation notes that whilst the activities of

approximately 17 companies would be brought into scope by the change, it expects less than five mandatory notifications a year.

Unfortunately, there is no mention in the consultation about removing transactions such as internal reorganisations or fund-to-fund transfers from the scope of the NSIA, which would also have the effect of reducing the number of filings that have to be made, notwithstanding the fact those transactions could reasonably be expected to be low-risk from a national security perspective.² The consultation closes on 14 October 2025.

1. The National Security and Investment Act 2021 - Annual Report 2024-2025: 22 July 2025.[↗](#)

2. We note that Ministers have suggested the rules may be amended to exclude internal reorganisations but there has been no formal proposal to date.[↗](#)

Authors

Sally Evans

Partner / London

Mark Gardner

Partner / London

Matthew Sinclair-Thomson

Partner / London

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