

National security and investment: tweaks and trends

On 22 July 2025, the UK government published its annual report on the operation of the National Security and Investment Act 2021 (NSI Act) in the year 2024-25 (www.gov.uk/government/publications/national-security-and-investment-act-2021-annual-report-2024-25). On the same day, the government also launched a consultation on changes to the mandatory sector definitions set out in the NSI Act, and announced plans for changing the approach to internal reorganisations (the consultation) (www.gov.uk/government/news/national-security-powers-to-be-updated-to-reduce-the-burden-on-businesses).

Call for evidence

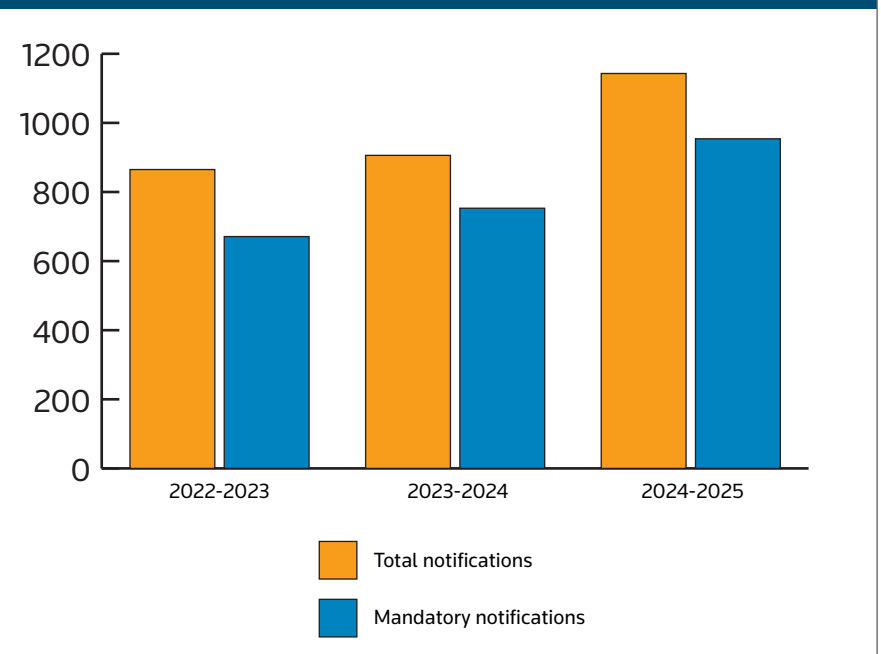
The NSI Act regime was established in January 2022 in order to give the government the ability to scrutinise acquisitions that could harm the UK's national security (see *feature article "National Security Investment Act 2021: taming the M&A dragon"*, www.practicallaw.com/w-032-2847).

On 13 November 2023, the previous government issued a call for evidence asking stakeholders for their views on possible changes to the regime under the NSI Act (see *News brief "National security and investment: rebalancing the Act"*, www.practicallaw.com/w-041-5142). In December 2024, the current government concluded that some improvements could be made to the National Security and Investment Act 2021 (Notifiable Acquisition) (Specification of Qualifying Entities) Regulations 2021 (SI 2021/1264) (2021 Regulations) (www.gov.uk/government/publications/report-on-the-nsi-act-notifiable-acquisition-regulations/report-on-the-national-security-and-investment-act-2021-notifiable-acquisition-specification-of-qualifying-entities-regulations-2021-html).

Internal reorganisations

At present, internal reorganisations of companies falling within the scope of the 2021 Regulations require mandatory notification. For example, if an international group with a UK subsidiary that develops an AI tool inserts a new holding company, a mandatory notification may need to be made. This is the case even if the new holding company's ownership is identical to the previous ownership.

Number of notifications by year



In April 2024 the previous government floated the possibility of introducing technical exemptions, including for internal reorganisations (www.gov.uk/government/calls-for-evidence/call-for-evidence-national-security-and-investment-act/outcome/national-security-and-investment-act-2021-call-for-evidence-response). In the announcement made on 22 July 2025, the government stated its aim of reducing unnecessary red tape by ensuring that certain internal reorganisations will no longer require mandatory notification. Although the detail behind this is still awaited, the change is likely to be welcomed by businesses.

Tweaking the mandatory sectors

The 2021 Regulations set out the scope of the sectors that require mandatory notification under the NSI Act. An acquisition of an entity that conducts activities in the UK falling within the ambit of the 2021 Regulations triggers a mandatory notification requirement. At present, the 2021 Regulations contain 17 schedules, each with a detailed description of the sector activities that are in scope.

The consultation seeks to modify the 2021 Regulations to cater for what the ministerial foreword calls "new risks", and to provide additional clarity on the existing sectors. The government's estimate of the impact of these changes is rather unspecific, with a

forecast of between ten fewer and 35 more mandatory notifications per year. Some of the key proposals include:

- Carving out both semiconductors and critical minerals into standalone schedules, whereas at present they are included in the schedule dealing with advanced materials.
- Widening the scope of the existing schedules dealing with critical suppliers to include the government and suppliers to the emergency services.
- Creating a new standalone sector for water.
- Clarifying the scope of AI activities. The government is proposing to update the description of AI to remove off-the-shelf AI and to shift the focus of the assessment from the purpose of the AI system to its ability. This is intended to account for the increasing number of businesses that use AI as part of their internal processes.

If implemented, the net effect of the proposed changes would be an increase in the number of mandatory sectors from 17 to 19.

Notably, the proposals do not include any updates to the description of defence activities,

even though defence has consistently been the sector responsible for the most notifications each year. In particular, the government's guidance on the types of notifiable acquisitions relies on a wide interpretation that is not necessarily supported by the 2021 Regulations, as it gives the example of a catering contractor or subcontractor with access to defence facilities being in scope (www.gov.uk/government/publications/national-security-and-investment-act-guidance-on-notifiable-acquisitions/national-security-and-investment-act-guidance-on-notifiable-acquisitions#defence). When the amendments to the 2021 Regulations come into force, the government will also need to update this guidance.

Annual report

The annual report, which covers the period from 1 April 2024 to 31 March 2025, is the fourth annual report published since the NSI Act regime was established and is the third to cover an entire financial year. The publication of the report is a statutory requirement under section 61 of the NSI Act.

The foreword to the annual report emphasises the role of the NSI Act in supporting key government objectives, in particular the delivery of economic growth and an increase in living standards. While acknowledging the need to consider improvements, the government's view is that the NSI Act is working well and is supporting a business environment that is conducive to growth.

Key statistics. The total number of notifications received in 2024-25 was 1,143, including 954 mandatory and 134 voluntary notifications. The total number of notifications increased considerably from 906 received in the previous year, representing an increase of 26%. The year-on-year increase in the number of retrospective applications was remarkably high, accounting for a rise of 67% compared to the previous year. Retrospective applications are made in completed transactions that were not notified despite the requirement to do so. However, the government did not issue any penalties during the reporting period. It is conceivable that a significant proportion of the retrospective validation cases concerned internal reorganisations where the notification obligation was originally overlooked. Only one of the retrospective applications was called in by the government for further scrutiny.

Average number of working days from receipt of notification to acceptance



Interestingly, data from the Office for National Statistics for the same period as the NSI Act data shows that the number of inward and domestic mergers and acquisitions involving UK companies declined by 3.3% in 2024-25 compared to the previous year. Therefore, the increase in the total number of notifications under the NSI Act suggests that a larger proportion of transactions have been notified.

The government issued 56 call-in notices in 2024-25, representing a considerable increase of 37% compared to the previous year. After a call-in, the government can either clear the transaction by issuing a final notification or impose a final order to remedy any national security concerns. The percentage of call-in cases that resulted in a final order increased from 12% in 2023-24 to 31% in 2024-25. However, to put this in context, final orders were still only issued in 1.5% of the notified transactions in 2024-25 (see box "Number of notifications by year").

Timing. The time that it takes the government to confirm acceptance of notifications is of practical importance because the statutory 30-business day review period only starts from acceptance. The timing for acceptance has increased slightly in the past few years (see box "Average number of working days from receipt of notification to acceptance"). In 2024-25, it took, on average, seven

working days from receipt of a mandatory notification to acceptance, eight days for voluntary notifications, and six days for retrospective validation applications.

On average, it took 70 working days from a call-in for the government to issue a final order remedying national security concerns.

Sector focus. Notifications involving companies in the defence sector continue to make up the bulk of notifications, accounting for 56% of all notifications in 2024-25. This is followed by critical suppliers to the government at 21% and the military and dual-use sector at 19%. Defence also made up the largest proportion of called-in notifications, accounting for 36% of called-in notifications and 53% of the final orders issued, followed by the military and dual-use sector at 29% of called-in notifications and 35% of the final orders issued. These annual statistics show an ongoing focus on the broader defence and military industry. The proportion of notifications involving companies in the defence sector was 48% in 2023-24.

Origin of investment. The largest proportion of accepted notifications in 2024-25 involved acquirers associated with the UK at 65%, followed by acquirers associated with the US, which accounted for 29%, and acquirers associated with France or Luxembourg, which accounted for 6% in each case. Similarly, in the previous year, the largest proportion

also consisted of acquirers associated with the UK, accounting for 58%, followed by the US and France.

The data suggests a sensitivity towards China, with 32% of called-in acquisitions in 2024-25 having a buyer with Chinese links. The equivalent data point was 41% in 2023-24 and 42% in 2022-23. This can be contrasted with the fact that only up to 5% of accepted notifications in the last three years involved acquirers associated with China. However, interestingly, the

proportion of final notifications issued by the government involving acquirers associated with China decreased from 40% in 2022-23 and 48% in 2023-24 to just 23% in 2024-25, with acquirers associated with the UK overtaking China as the country with the largest proportion of final notifications issued in 2024-25, accounting for 34%.

This data comes with a health warning, as the statistics allow for an acquirer to be associated with more than one country. In any event, this development will likely weigh

on the government's mind as it considers the possible future introduction of more limited scrutiny for transactions involving UK buyers.

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The consultation is at www.gov.uk/government/consultations/consultation-on-the-nsi-act-notifiable-acquisition-regulations
