

## Insights

# SPOTLIGHT ON THE UK'S NSI REGIME

## WHAT'S HAPPENING NOW AND WHAT'S ON THE HORIZON

Oct 07, 2025

### SUMMARY

It's been over three years since the UK's National Security and Investment (NSI) regime came into force. Since then, the regime has remained largely unchanged, with several attempts over the period to increase the transparency and clarity of the regime through the publication of Annual Reports and market guidance notes.

On 22 July 2025, the UK Government announced three significant updates to the regime:

- A 12-week consultation on proposed reforms to the 17 sectors that give rise to mandatory notification;
- An announcement that certain types of transactions (notably in respect of internal reorganisations) would be removed from the scope of the NSI regime; and
- The publication of its fourth Annual Report on the operation of the regime.

Together with the Government's Industrial Strategy and National Security Strategy, these updates reflect the Government's efforts to ensure that the NSI regime keeps apace with growing national security threats while at the same time promoting investment in line with the Government's broader growth agenda.

For investors and corporates active in the UK, these developments are important: they highlight where the focus of the Government is shifting, how the regime is operating in practice and the implications for deal execution. Below we consider the main reforms proposed and the impact for businesses.

## CONSULTATION ON PROPOSED REFORMS TO THE NSI SECTORS

On 22 July 2025, the UK Government launched a 12-week consultation on proposed amendments to the scope of the NSI mandatory notification regime. The proposed reforms seek to *“loosen the scope on certain transactions”*, bring in *“some new areas where proportionate”*, *“reflect areas where there are new risks”*, as well as *“improve clarity around the areas already covered.”* It is hoped that the proposed updates and changes to the scope of the regime will capture the national security risks in sensitive areas of the economy while ensuring that the vast majority of deals remain unaffected.

The main proposals include:

## **“WATER” AS A NEW STANDALONE SECTOR**

Water has not previously featured as one of the 17 mandatory sectors. However, with around £100 billion of investment expected in this ‘critical national infrastructure’ between 2025 and 2030, the Government is keen to ensure that the right security protections are in place to address any potential national security risks. It is expected that this new sector will cover regional water and sewage monopolies operating across England and Wales, with at least 17 companies potentially within scope. It is interesting that this new standalone regime comes following the publication of the Independent Water Commission’s Final Report on 21 July 2025 which identified the need to protect this critical national infrastructure against hostile threats.

## **“SEMICONDUCTORS” AS A NEW STANDALONE SECTOR**

Semiconductors are currently covered by the Advanced Materials sector. The Government is now proposing to carve Semiconductors out from the Advanced Materials sector and merge it with the existing Computing Hardware definition to create a new, standalone Semiconductors sector. The Government also plans to expand the scope of the sector by including advanced packaging techniques and activities involving the wider design process of processing units and memory chips, such as R&D, within the definition in response to a changing risk profile. Interestingly, it is not expected that the number of businesses in scope and/or the number of mandatory notifications will change as a result of this new standalone sector. However, the Government anticipates that there could be a small number of voluntary notifications from the purchase of IP following a review of advanced packaging research.

## **“CRITICAL MINERALS” AS A NEW STANDALONE SECTOR**

The Government proposes to remove Critical Minerals from the existing Advanced Materials sector and create a new standalone Critical Minerals sector. This would bring the sector in line with the Critical Mineral Intelligence Centre’s latest UK criticality assessment, while also retaining

strategically important minerals necessary for defence or scientific purposes beyond the criticality list. Additionally, the Government is planning to add extraction, processing and recycling of Critical Minerals to the scope of this new definition. The proposed changes are expected to bring 1-50 more businesses into scope and to lead to 1-10 more notifications per year.

## CHANGES TO EXISTING MANDATORY SECTORS

The Government is also consulting on proposed changes to some of the existing mandatory sector definitions to address evolving risks and to introduce more clarity. With the definition of **Artificial Intelligence**, for example, the Government proposes to remove those companies which use “off the shelf” AI as a tool within internal processes. Instead, companies that test the safety of AI systems, evaluate the risk of disinformation or misinformation, or conduct research into the capabilities of AI systems that could potentially create a risk to the health, safety or security of persons, will be kept in scope. These changes are likely to result in a reduction in the number of filings; with between 1-10 fewer mandatory notifications per year. The Government also proposes to make updates to the following sectors: **Communications, Critical Suppliers to Government, Data Infrastructure, Energy, Suppliers to the Emergency Services** and **Synthetic Biology**.

Following the conclusion of the consultation on 14 October 2025, legislative changes will be needed before any amendments can take effect. If fully implemented, there would be 19 sectors subject to mandatory notification. However, the Government does not expect that this will result in a significant change in the overall number of notifications.

If you would like any assistance in preparing a response to the consultation, or would like to discuss the implications of the consultation more generally on your business, please contact a member of the team below.

## EXEMPTED DEALS

In addition to the consultation, the Government separately announced plans on 22 July 2025 to reduce the “unnecessary red tape” for businesses by ensuring that mandatory notifications would no longer be needed for certain types of internal reorganisations and for the appointment of liquidators, special administrators and official receivers. This is welcome news for investors as, more often than not, such transactions have resulted in notifications for deals that do not present any national security risks.

Without sharing further details, the Government aims to ease the regulatory burden and focus its own attention on deals presenting a greater risk to national security. At the time of writing, it remains unclear when the exemptions will be implemented or precisely what transactions will be taken out of scope, but we understand that the exemptions would be introduced as secondary legislation “in due course”.

## FOURTH ANNUAL REPORT

On 22 July 2025, the Government also published its fourth Annual Report on the operation of the NSI regime covering the period between 1 April 2024 and 31 March 2025. The report provides valuable insights into the functioning of the regime. Our top five highlights include the following:

- **Increase in the number of notifications** – The Government received a record 1,143 notifications in the reporting period, up from 906 from the previous year. The largest proportion of notifications unsurprisingly involved companies active in the sectors of Defence, Critical Suppliers to Government and Military & Dual-Use.
- **Call-in remains rare** – Despite the high number of notifications in the last reporting period, only 4.5% of deals were called-in and only one transaction was blocked.
- **Increase in the number of retrospective validations, yet no penalties imposed** – There were 60 instances where a notifiable deal was completed without approval. This is an increase from the previous reporting period of 33 such deals. To date, the Government has not imposed any penalties on parties for failure to notify but instead has sought reassurance from parties that steps have been taken to prevent recurrence.
- **UK buyers under the radar** – Perhaps more surprisingly, at least on face value, is that acquirers from the UK received the highest number of call-ins (48%), Final Notifications (34%) and Final Orders (65%).
- **Review periods are quick for most deals but lengthy for call-ins** – Consistent with the previous year, all accepted notifications were cleared within the 30 working day review period. However, where a deal is subject to commitments, it took on average 70 statutory working days or 100 calendar days to issue the Final Order from the point an acquisition was called-in. This is an increase from the previous period, where it took an average of 34 statutory working days or 53 calendar days. Parties should, therefore, allow sufficient timing in deal documentation where there is a risk that a deal may be called-in.

The evidence from the latest annual report is consistent with our experiences of the NSI regime over the last 12 months.

## IMPLICATIONS FOR INVESTORS

Since its inception on 4 January 2022, the UK NSI regime appears to be working well. While the number of filings has increased year-on-year, only a small proportion of deals have been 'called-in' for in-depth assessment and/or blocked. To date, no penalties have been imposed on parties for failing to make a mandatory filing where required. Rather, the Government has sought reassurance from companies that steps have been taken to prevent any recurrence.

If you would like to discuss the implications of the NSI regime – and the proposed amendments to it – please contact a member of the team below.

## **RELATED CAPABILITIES**

- Antitrust & Competition

## MEET THE TEAM



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