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Insights

UK INVESTMENT SCREENING: RECENT DEVELOPMENTS UNDER THE UK'S NATIONAL SECURITY AND INVESTMENT ACT

Sep 08, 2026

Summary

The mandatory notification regime under the UK's National Security and Investment Act (NSIA) has been in force for more than four years. During this time, the number of deals notified to the UK Government has steadily increased, allowing the Government to scrutinise more deals from a national security perspective. However, changes are afoot. Over the summer, the new Prime Minister rehoused the Investment Security Unit (ISU) once again, and the NSIA's legal framework, which has remained unchanged since being enacted, is due to be altered significantly.

In the following article, we look at lessons learnt from two prohibited transactions – the first block of 2026 and the conclusion of an M&A saga dating back to 2021. We also consider the implications of the ISU leaving the Cabinet Office, identify key trends from the latest NSIA Annual Report, and examine major forthcoming amendments to the NSIA regime.

First Blocked Deal of 2026

In June 2026, the UK Government blocked the acquisition of TTG Global Solutions Group Limited (TTG) by Shenzhen HYT Science & Technology Co., Ltd (Shenzhen HYT), a listed Chinese telecommunications company with partial state ownership. The UK Government's intervention reflected concerns arising from TTG's role as a supplier of communications solutions to the UK's critical national infrastructure, government bodies and emergency services, together with the potential national security implications of access to sensitive data held by TTG. This decision is not unexpected given Shenzhen HYT's connections to the Chinese state and the sensitive nature of TTG's UK activities; Shenzhen HYT has also been the subject of national security concerns in the US, seemingly due to its links to the Chinese state.

Notably, this was the first transaction prohibited in 2026 and only the eighth deal to be blocked since the NSIA regime came into force in January 2022. The relatively small number of prohibitions to date underscores the fact that the overwhelming majority of notified transactions are either cleared unconditionally or approved subject to remedies. While the proportion of Chinese investments subject to call-in has fallen in recent years, this recent decision demonstrates that the UK Government remains prepared to intervene where Chinese investment intersects with particularly sensitive activities or assets. It also serves as a reminder that NSIA scrutiny is not confined to traditional defence sectors. Rather, the UK's conception of national security continues to evolve, encompassing considerations such as technological capability, supply chain resilience and access to sensitive information.

The FTDI Saga Comes to an End

Back in December 2021, FTDI Holding Ltd, a UK company backed by Chinese state-affiliated investors, acquired an 80.2% stake in Future Technology Devices International (FTDI), a UK semiconductor business. As the acquisition pre-dated the entry into force of the NSIA, no mandatory notification was required at the time. However, the transaction was subsequently called-in for review in November 2023 and, one year later, the Government ordered FTDI Holding Ltd to divest its shareholding.

FTDI Holding Ltd subsequently sought to challenge the divestment order by way of judicial review. The High Court dismissed the claim, reaffirming the considerable hurdle facing parties seeking to overturn national security decisions and the broad discretion afforded to the Government under the UK NSIA regime.

On 1 July 2026, the acquisition reached its conclusion, when Willow Vision Limited was granted conditional approval to acquire the 80.2% shareholding. The approval was subject to remedies relating to certain payments, ongoing communications between the parties and FTDI's activities following completion. The clearance of Willow's acquisition effectively brings to a close one of the most closely watched NSIA cases to date, demonstrating both the Government's willingness to require divestment where national security concerns arise and its readiness to approve alternative purchasers subject to appropriate safeguards.

Back to Business

On 20 July 2026, Andy Burnham became the UK’s latest Prime Minister. As part of his appointment, there has been a major restructuring of government departments, including the transfer of the body responsible for administering the UK’s national security screening regime, the ISU, from the Cabinet Office to its quasi-starting point, the newly expanded Department for Business, Innovation, Science and Trade (DBIST). We understand that this move out of the Cabinet Office was to “slim down the centre of government” and to align the functions with “departments suited to their purpose.”

The ISU was initially established within the Department for Business, Energy and Industrial Strategy before being transferred to the Cabinet Office in February 2023. Its movement between departments over the life of the NSIA regime provides an indication of how successive governments have sought to balance national security oversight with broader economic and industrial policy considerations. Whereas the 2023 transfer placed investment screening closer to the centre of government, the latest change appears intended to align the function more closely with the Government's broader business brief.

While some may view the move as signalling a greater emphasis on economic and industrial policy considerations in the administration of the regime, there is currently no indication that it will result in a less interventionist approach to national security reviews. Dealmakers should therefore continue to expect robust scrutiny of transactions involving sensitive technologies, critical infrastructure and other activities of UK national security interest.

What the Data Tells us About How the NSIA Regime is Doing

On 14 July 2026, the UK Government published its fifth Annual Report on the operation of the NSIA regime, covering the period from 1 April 2025 to 31 March 2026. The Annual Report highlights that the UK regime remains one of the more active FDI screening regimes in the world, with the number of notifications continuing to rise year-on-year.

Key takeaways:

- **Increase in the number of notifications:** The ISU received 1,324 notifications during the reporting period, an increase of 15% on the 1,143 received during the previous year. This significant increase in notifications is consistent with ongoing trends observed in other FDI regimes. In 2025, for example, Germany's Federal Ministry for Economic Affairs and Energy reported an approximately 30% increase in national screening filings (albeit with a far smaller volume of filings – 339 in 2025), and figures published by the French Ministry for the Economy highlight an approximately 6% rise in notifications last year (again with fewer filings submitted than in the UK – 417 in 2025, and 392 in 2024). The upward trend in filing volumes reinforces concerns that the UK regime may be capturing a significant number of transactions that raise little or no genuine national security risks, adding weight to calls for further refinement of the NSIA regime.

- **Majority of transactions cleared following initial review period:** The overwhelming majority of notified transactions reviewed (95.6%) were cleared at the initial review stage, while the remaining 54 (4.4%) were called-in for a more detailed assessment. Unsurprisingly, the majority of called-in deals were in sectors associated with Defence, followed by Critical Suppliers to Government and Military and Dual-Use. Interestingly, there were no call-in notices in relation to the Synthetic Biology sector.

- **Final Orders (conditional clearances or prohibitions) remain rare**: Only nine final orders were made during the reporting period, a drop from 17 in the previous year. Of these, only one transaction was blocked, which related to the transfer of sensitive dual-use technology. The nine final orders, which each relate to more than one of the notifiable sectors, most frequently concerned the sectors of Advanced Materials (five), Data Infrastructure (three) and Military and Dual-Use (two). Interestingly, this latest Annual Report is the first full-year report in which Defence has not been one of the top three sectors in relation to which final orders were issued. It is important not to read too much into the lack of Defence-related final orders during this reporting period, in part because there were only nine final orders during the period. Nevertheless, this is again a reminder to businesses that the UK Government can find – and take action in relation to – national security concerns in non-military/defence sectors.

- **Regime is country-agnostic, although China remains under close scrutiny**: Acquisitions linked to Chinese investors accounted for 30% of all call-ins, despite Chinese investors only being involved in a small fraction of all notifications. By contrast, acquisitions involving UK investors accounted for the largest share of both accepted notifications (72%) and call-ins (52%), while US investors were involved in 28% of notifications accepted and 23% of call-ins. Although investors from any country can find their deals subject to NSIA scrutiny, the chances remain much higher where Chinese investors are involved.

- **No penalties yet**: 42 retrospective validation applications were received for transactions completed without prior approval, down from 55 received in the previous reporting period. No penalties were imposed and no criminal prosecutions were commenced for failing to notify. Instead, the parties were required to provide reassurance that steps had been taken to prevent any recurrence. It remains to be seen how much longer it will be before penalties are imposed in such situations, as has been seen in other regimes. For instance, in the Netherlands, the first gun-jumping fine was imposed in 2025 for a transaction that completed without a prior FDI notification (the exact value of the fine was not disclosed).

- **ISU taking longer to accept filings**: The time for accepting notifications as being complete, and therefore for the initial review process to commence, is taking longer. During the reporting period, it took on average 11 working days from receipt to accept a mandatory notification as complete, compared with seven working days in the 2024/2025 period. Clients should therefore build-in sufficient time in deal documentation to address the full NSIA clearance process. We understand that the Government is taking steps to reduce this delay, without providing any further details. The planned reforms (detailed below) may go some way to helping with this.

Major Reforms on the Horizon

In March 2026, the Government published its consultation response on the proposed amendments to the 17 sectors requiring mandatory notification under the NSIA regime. In its response, the Government confirmed that it intends to proceed with a number of significant amendments to the

NSIA regime (which we discussed in our article on the consultation last year). Most notably, the following new standalone sectors will be created:

- **Water**: A new Water sector will be established, covering water and sewage monopolies operating across England and Wales. The introduction of this new sector reflects the Government's focus on regulating the water sector, following on from the Independent Water Commission's report in July 2025 and the Government's White Paper, "Water Reform: A New Vision for Water", in January 2026.

- **Critical Minerals**: Critical Minerals will be carved out from the existing Advanced Materials sector. The list of minerals within scope of the sector will be harmonised with the Critical Mineral Intelligence Centre's list of 34 critical minerals, together with strategically important minerals needed for defence or scientific purposes that do not appear on the CMIC's list. The Government is also working on revisions to the sector definition to ensure that low-risk activities are not caught, including by limiting the exploration and extraction land rights that will fall within scope.

- **Semiconductors**: Semiconductors will be carved out of Advanced Materials and merged with the existing Computing Hardware sector to form a new standalone sector. Although there will be some amendments to the wording that will be lifted from the existing sectors, the scope of the semiconductors sector will remain intentionally broad.

The Government's response also confirmed that changes will be made to a number of existing sectors. For instance, the **Artificial Intelligence** sector will be narrowed to exclude the use of non-consumer AI systems for routine business activities, the use of licensed third-party AI systems, and certain modifications to and testing of AI systems. Likewise, the **Critical Suppliers to Government**, **Data Infrastructure**, **Energy**, and **Suppliers to the Emergency Services** sectors will each have their scopes and definitions clarified.

In addition, and as mentioned in the Government's latest NSIA Annual Report, further amendments to exempt certain acquisitions from mandatory filing obligations are anticipated. The Government has been promising for a while to remove certain internal reorganisations and appointments of liquidators, special administrators and official receivers from the mandatory regime. However, to date no details or timelines have been forthcoming.

Want to know more?

The NSIA regime is now a well-established feature of the UK's M&A landscape. The number of notifications reviewed each year continues to grow, and the forthcoming amendments to the regime should help to keep it in step with economic, security and technological developments.

If you would like to discuss the implications of the NSIA regime and its forthcoming amendments, please contact a member of the team below.

The authors would like to thank trainee solicitor Edward Jenkinson for his assistance with this article.

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Meet the team

Christine Graham

Partner, London

christine.graham@bclplaw.com
+44 (0) 20 3400 4291

Tom Wright

Senior Associate, Brussels

thomas.wright@bclplaw.com
+32 (0) 2 792 2437

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