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Regulatory Update

From Burden to Balance: UK Moves to Streamline NSIA Regime

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On 22 July 2025, the UK Cabinet Office announced a package of proposed reforms to the National Security and Investment Act (NSIA) 2021 aimed at streamlining the regime and easing the burden facing businesses who trigger NSIA filings. Notably, routine internal reorganisations and certain insolvency appointments will no longer trigger mandatory NSIA filings, recognising that such transactions rarely pose national security risk. The UK government has also initiated a consultation (open until 14 October 2025), which seeks views from interested third parties, including any and all businesses that invest in the UK, on refining the sectors caught by the current NSIA regime. This includes, in particular, proposing standalone categories for semiconductors and critical minerals (e.g., lithium, cobalt and rare earth elements) and considering the inclusion of water-related transactions that presently fall outside the scope of the current regime. Additional reforms are also expected to be introduced to improve transparency and procedural efficiency.

The announcement coincided with the government's fourth NSIA Annual Report, covering the period from 1 April 2024 to 31 March 2025. The Annual Report evidences a continued increase in notifications for the period in question — 1,143 in total, up from 906 for the previous yearly cycle — likely reflecting increased investor awareness of the regime and the number of transactions caught by the regime over the past year. In showing over 95% of cases cleared within 30 working days and relatively few call-ins for detailed reviews, the findings of the Annual Report underscore the importance of maintaining a targeted and proportionate approach as the proposed reforms move forward.

NSIA Sector Scope Under Review

The UK government's consultation — published on 22 July and closing on 14 October — sets out various proposals to amend the UK government's powers under the NSIA. The consultation provides businesses with the opportunity to comment on certain proposed amendments to the UK NSIA regime in a bid to create a more concise framework that promotes investment, supports growth and aligns national security tools with the modern business landscape.

In a positive turn of events, the UK government has confirmed that certain internal restructurings and insolvency-related transactions — which typically pose little or no national security risk — will be exempt from mandatory notification requirements under the NSIA. This move is intended to reduce unnecessary filings and ease the compliance burden on businesses undertaking routine corporate activity.

The proposed reforms also invite consultation on the introduction of new, more precisely defined sectors of strategic importance to the UK economy, alongside proposed amendments to existing sector definitions caught under the current regime. These changes aim to improve clarity, reduce the volume of low-risk notifications and ensure the regime continues to reflect the UK's evolving national security priorities. The sectors of the economy in particular focus are:

New Standalone Sectors:

1. **Semiconductors**: The government is proposing to remove semiconductors from the broader "Advanced Materials" category and instead establish a standalone mandatory sector to better target the activities of national security concern. This new category would explicitly cover semiconductor design, manufacturing and packaging, as well as the development of enabling technologies. By isolating semiconductors, the changes aim to prevent overcapture of unrelated entities while ensuring that strategic areas within the UK's chip supply chain remain subject to review.

2. **Critical Minerals**: A new mandatory sector is also proposed for critical minerals, focused on entities involved in the extraction, refining, processing or recycling of materials essential to defence, green energy and advanced technologies, such as lithium, cobalt and rare earth elements. This reflects the UK's increased policy emphasis on supply chain security and economic resilience and would allow the government to monitor and intervene in deals involving key upstream resources without relying on the broader "Advanced Materials" sector definition.

3. **Water**: The consultation also proposes introducing an altogether new mandatory sector for the water industry, focused on regulated water and sewerage providers. The aim is to capture entities with critical infrastructure responsibilities while excluding low-risk businesses such as nonhousehold retail suppliers. This reflects growing concerns around infrastructure vulnerability and national resilience, particularly in light of foreign ownership trends and the strategic role of water in public health and environmental management.

Amendments to Existing Definitions

4. **Artificial Intelligence (AI)**: The reforms aim to narrow the AI sector's scope by better distinguishing between high-risk use cases and more benign commercial applications. Mandatory notification would be reserved for sensitive systems — such as those involved in surveillance, behavioural analytics or biometric identification — while low-risk implementations, like business process tools or AI-enhanced spreadsheets, would be excluded. This refinement is designed to reduce unnecessary filings in low-risk commercial contexts and lower regulatory friction for companies working with general-purpose AI solutions.

5. **Energy**: Proposed adjustments to the energy sector would increase certain thresholds and clarify the definitions to reduce the regulatory burden on smaller operators (for example, energy aggregators and battery storage operators with limited capacity). These proposals are intended to align the NSIA's application with the UK's updated Energy Security Strategy, ensuring that only entities with genuine national security implications are subject to scrutiny.

6. **Communications and Data Infrastructure**: The proposed reforms in this area are intended to modernise and clarify what constitutes critical communications and data infrastructure. Definitions would be updated to reflect real-world technical and operational changes, ensuring the NSIA's reach includes cloud services, data centres and telecoms operators that form the backbone of the UK's digital infrastructure. The aim is to apply scrutiny proportionately, avoiding disruption to low-risk or ancillary service providers.

7. **Synthetic Biology**: To better reflect technological risks, the government proposes refining the synthetic biology sector to focus on high-risk applications such as pathogen synthesis, gene editing and bioengineering with dual-use or military potential. The changes are designed to avoid sweeping up companies in low-risk fields like cosmetics, food tech or general

bio-based R&D. This move aims to balance security concerns with innovation by narrowing the notification trigger to genuinely sensitive bioengineering activities.

8. **Suppliers to Government and Emergency Services**: Clarifications are also proposed for the category covering suppliers to government and emergency services. These would help better define which contractors or service providers fall within scope based on the nature of their work, criticality to emergency response and scale or exclusivity of their government contracts. The intent is to eliminate ambiguity, ensuring only suppliers of strategic importance are captured, thereby improving predictability for public-sector contractors.

NSIA Annual Report

The UK's latest NSIA annual report (2024–25) confirms what many market participants have experienced — the regime is becoming more embedded, with over 1,100 deals notified in the 1 April 2024–31 March 2025 reporting period (an increase of almost 25% from the year before). While such increase may point to greater investor awareness of the regime together with more transactions involving sectors caught by the current regime, it also underscores the need for the regime to stay proportionate and predictable — especially as the proposed reforms roll out.

Encouragingly, however, the report also shows that most deals (95.5%) remain cleared within the initial 30 working-day window and only a small proportion are called in and subject to a more detailed, in-depth review. Notably, voluntary notifications led to over a third of call-ins, showing that the government remains actively engaged in reviewing transactions that fall outside the scope of the mandatory notification regime.

The report also highlights which sectors continue to draw the most attention — defence, AI, advanced materials and data infrastructure — many of which are under review in the current reform-related consultation. Notably, UK-based investors accounted for the largest share of call-ins and final orders, alongside Chinese and U.S.-linked acquirers, reflecting the government's emphasis on target risk over nationality of proposed acquirer.

Navigating the NSIA Changes: What Investors and Businesses Should Do Now

With notification volumes rising and reforms underway, businesses should take a proactive approach to NSIA compliance. Now is the time to review deal pipelines for potential sector or jurisdictional exposure, especially in areas under consultation (e.g., semiconductors, AI, critical minerals and water sectors). Companies may also consider reassessing when voluntary filings may be prudent, particularly for deals involving foreign acquirers or particularly sensitive assets. Crucially, conducting a detailed NSIA analysis early in any transaction lifecycle is essential to assess the risk of a call-in, determine notification obligations and avoid delays to deal execution.

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If you have any questions concerning these developing issues, please do not hesitate to contact either of the following Paul Hastings London lawyers:

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