

## TheCityUK's response to the Cabinet Office consultation on the NSI Act Notifiable Acquisition Regulations (NARs)

### About TheCityUK

1. TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs almost 2.5 million people – with two-thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays a vital role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

### Overview

2. TheCityUK welcomes the opportunity to respond to this consultation. We previously responded to the Cabinet Office's November 2023 Call for Evidence on the UK's investment screening regime under the National Security and Investment (NSI) Act, 2021 (NS&I Act).<sup>1</sup> Meanwhile, in April 2025, TheCityUK, jointly with Freshfields, published a report comparing key features of the UK's NSI regime to investment screening regimes in other jurisdictions, setting out examples of best practice that should inform future reform in the UK.<sup>2</sup>
3. The industry understands the vital need to protect the UK's national security and supports the government's ambition to continually improve the UK's investment screening system and grow the UK's status as a global magnet for investment. We note that several of the government's target sectors for investment under the Industrial Strategy (advanced manufacturing, clean energy industries, defence, digital and technologies, and life sciences) are also identified as sensitive sectors in the Notifiable Acquisition Regulations (NARs). Therefore, it is essential that the various arms of government are all pulling in the same direction, and that the UK's investment screening regime is proportionate and well-targeted.
4. While the UK system offers a largely predictable regime, it is viewed by international investors as an additional cost of doing business in the UK, which can seem at odds with the pursuit of growth. While some of the reforms announced on 22 July 2025<sup>3</sup> and proposed by government in this consultation are welcome, the overall package of proposed changes is unlikely to meaningfully reduce the burden on business and, as the consultation notes, may add to the overall number of notifications resulting from the regime.

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<sup>1</sup> <https://www.thecityuk.com/our-work/thecityuk-response-to-the-government-s-call-for-evidence-on-the-operation-of-the-national-security-and-investment-act/>

<sup>2</sup> TheCityUK & Freshfields (April 2025), 'Foreign direct investment and national security regimes A path to best practice in the UK'; <https://www.thecityuk.com/our-work/foreign-direct-investment-and-national-security-regimes/>

<sup>3</sup> <https://www.gov.uk/government/news/national-security-powers-to-be-updated-to-reduce-the-burden-on-businesses>

5. We remain concerned that the UK system will continue to cast a very wide net over investment activity compared to other geographies that are competing for global investment. Given the need for investment to drive growth, we continue to urge government to consider more extensive reforms to send a stronger and more coherent signal that the UK is seeking to streamline processes and reduce regulatory hurdles to investment, without compromising on protecting national security.

## Changes proposed to the NARs and the scope of the NSI regime

### ***Changes to the mandatory notification sectors***

6. The proposed changes to the mandatory notification sectors would increase the number of mandatory areas from 17 to 19, although in practice this reflects only one new area (water) due to reclassification. Nevertheless, the overall effect and signal to investors is a further expansion of the UK national security regime into new areas. The breadth of areas covered by the regime risks further blurring the lines between economic and national security. It is vital that the government clearly signals that it is using its screening powers to review investments solely for national security purposes.
7. We note that the midpoint estimate of the impact of the proposed changes is a limited increase to the number of notifications (within the estimated change of between 10 fewer and 35 more notifications annually). Ultimately, this offers no reduction in burden on business resulting from the regime and will likely add to it.

### ***Definitions of the new and existing sensitive sectors***

8. We agree that the definitions of the 17 sensitive and strategic sectors as set out in the NARs can be improved. Defining the strategic sectors with increased specificity would provide greater certainty to businesses regarding whether their investments will be caught by the regime. Currently, given the serious risks for non-compliance, a number of businesses are making notifications on a cautionary basis (i.e. without knowing whether their transactions do indeed fall within the scope of the mandatory notification requirements). Revised definitions and better guidance on the activities specified in each of the 17 sectors would result in improved certainty and greater investor confidence, and reduce the burden on the government reviewing a large number of notifications unnecessarily.

In relation to the proposed changes to the NARs, we have the following comments:

- a) *Critical Minerals* – We welcome the proposal to bring the definition in line with the updated UK list of Critical Minerals.
- b) *Semiconductors* – We also welcome the proposal for Semiconductors to be a standalone sector given the need for clarity and certainty for investors about the precise activities in this critical growth sector that are caught by the mandatory notification regime.
- c) *Artificial Intelligence* – We believe the proposed amendments remain too broad to achieve the stated objective of removing low risk cases involving consumer AI. The proposed language does not clearly separate businesses which use AI from those that develop AI. We suggest that the sector definition should more clearly distinguish a business developing AI from a business which is merely a user of an 'off the shelf' AI product.

- d) *Water* – If a new schedule is introduced to cover acquisitions of licensed water and sewerage undertakers, we urge the government to draft the schedule in a proportionate way by, for example, carving out smaller companies where national security risks are much less likely to arise, and to provide positive guidance to existing and welcome investors in the sector to avoid dampening much needed investment by inadvertently raising the regulatory hurdle.
- e) *Defence* – The government has not proposed changes to the Defence schedule but given the government’s priority to attract inward investment in the sector and the need for certainty over the activities that are caught, we encourage the government to clarify how the term “sub-contractor” is interpreted. This is particularly important for suppliers to defence contractors who do not regard themselves as sub-contractors (as that term is typically interpreted) and have no contractual link with the Ministry of Defence, any involvement in the contractor’s activities, any access to any sensitive material or sites or (in some cases) any physical presence or activities in the UK. We recognise why the schedule is widely drafted but suggest it could be clearer and more targeted in scope to strike the right balance between encouraging inward investment and scrutinising those parts of the defence supply chain where changes in control of entities could conceivably create risks to UK national security.

### ***Exemptions for internal reorganisations and the appointment of liquidators***

- 9. The announcement on 22 July 2025 that mandatory notifications will no longer be needed for certain internal reorganisations and the appointment of liquidators is welcome. These transactions pose little or no risk to national security, and such exemptions work well in other jurisdictions. We urge the government to bring forward its detailed proposals for secondary legislation to implement these proposals without delay. As regards internal reorganisations specifically, we would caution that exempting only certain types of internal reorganisations would not only reduce the impact of the proposed reforms, but would also risk creating unnecessary complexity and uncertainty for businesses as to whether their reorganisations fall within scope or not.

## **Wider issues to address**

### ***Limit the scope of transactions covered***

- 10. Government recognises that the majority of transactions requiring notification under the NSI regime are unlikely to raise national security concerns. This is confirmed by the statistics: in the 2024-2025 financial year, there were 1,143 notifications in total – over 25% more than the previous year. Reviews were completed for 1,079 notifications, 95.5% of which were notified that no further action would be taken, and only 4.5% were called in.<sup>4</sup>
- 11. These statistics illustrate that the UK regime casts a very wide net over investment activity. This is underlined when the UK system is compared to jurisdictions elsewhere.
- 12. The 1,079 transactions reviewed under the UK regime in 2024/25 compares with 325 filings under the Committee on Foreign Investment in the United States in 2024.<sup>5</sup> UK notifications are also significantly higher than the number of notifications filed in similarly sized European countries such as Germany and France, which each received approximately 300

<sup>4</sup> <https://www.gov.uk/government/publications/national-security-and-investment-act-2021-annual-report-2024-25/national-security-and-investment-act-2021-annual-report-2024-25-html>

<sup>5</sup> <https://home.treasury.gov/system/files/206/2024-CFIUS-Annual-Report.pdf>

notifications.<sup>6</sup> The UK is also one of the very few jurisdictions which applies its regime to investments by both domestic and foreign investors.

13. Therefore, in addition to the proposed exemption for certain internal reorganisations and the appointment of liquidators, we urge government to consider further limits on the scope of the regime. This could include:

a) Limiting the scope to transactions that have a direct impact on a UK company/branch.

The UK is one of only a few jurisdictions where simply sales to UK customers are sufficient to trigger jurisdiction. This means that transactions which have a very limited nexus to the UK are nevertheless caught by the regime. Limiting the applicability of the regime, similar to many other jurisdictions, to provide that the target must have some kind of presence in the UK would improve the regime. Transactions which have very little potential to harm national security (if at all) should not have to be notified. This could be assessed by the target, for example, being governed by UK law, being registered in the UK or having subsidiaries in the UK.

b) Introducing a de minimis threshold for investments with minimal impact in the UK. This would remove the need for filings for small investments where there is little threat to national security. This could involve, for example, a *de minimis* threshold for investments in target entities with an annual turnover of less than £5 million or a purchase price less than £5 million which operate in less sensitive sectors.

#### ***Increase transparency and dialogue so that fewer notifications enter the system***

14. Very few details on the government's decisions under the NS&I Act are provided. This means that businesses have little precedent from which to assess (i) whether the government would consider their transaction as falling within the regime (particularly bearing in mind the non-binding nature of the informal guidance provided by the government to parties) and (ii) how the government actually assesses the risk to national security. This could be addressed by:

- publishing more complete non-confidential decisions online; and
- issuing comprehensive and updated guidance, explaining the government's decision-making process, with reference to previous cases as examples.

15. Recognising that there have been improvements in the ability of parties and advisers to engage with the Investment Security Unit (ISU) since the commencement of the NS&I Act, there is still little room for early engagement and collaboration. Providing for greater access to the authority up front and during the pre-notification process will provide an opportunity to businesses to resolve any issues efficiently and expeditiously. Earlier and better communication with UK Ambassadors and trade envoys in key markets would also assist in addressing concerns by foreign investors and increase the speed of investment.

#### ***Introduce fast-track or post-closing procedures to streamline the system***

16. While reducing the number of unnecessary notifications should be the goal, given the strict penalties for non-compliance with the UK regime, it is likely that investors will continue to take a conservative approach to compliance. Therefore, streamlining the regime is just as important.

17. A fast-track or post-closing notification process for transactions which are unlikely to raise national security concerns would ensure greater efficiency while ensuring that those

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<sup>6</sup> <https://www.thecityuk.com/our-work/foreign-direct-investment-and-national-security-regimes/>

transactions which are of concern to the UK's national security are still captured by the regime. This could work in practice in a number of ways. For example:<sup>7</sup>

- **Target risk:** Investments in targets active in sectors which are considered the most sensitive or high risk could continue to be reviewed under the current process, while investments in targets active in less sensitive sectors could be reviewed under a fast-track / post-closing notification process.
- **Acquirer risk:** Establishing a preference for investors from certain jurisdictions, for example, those from countries with which the UK has FTA / security agreements. Although this is the simplest process in terms of allocating acquirer risk, we recognise that it is quite blunt and there may be valid reasons for not singling out certain countries. Another option would be to adopt a reciprocity principle – whereby non-UK investors from a given jurisdiction are allowed to invest in a UK company on the same, or preferential, terms as a UK investor would be able to invest in that jurisdiction.
- Alternately, a tiering system in terms of the levels of notification and review could be introduced depending on the risk profile of the target and the investor. This could also include a fast-track / post-closing system for repeat investors in businesses in a certain sensitive sector (and are therefore already known to the ISU).

18. For example, Australia has recently reformed its regime to streamline consultation and assessment of lower risk investment proposals. For repeat investors, where the ownership information has not changed since their previous foreign investment application, the reforms will reduce the need for foreign investors to provide duplicate information on issues such as ownership structures.<sup>8</sup>

### ***Amend non-compliance effects to improve regulatory predictability***

19. Transactions which require mandatory notification to the ISU but which are implemented prior to receiving approval should be voidable but not automatically invalid. This approach would align with the approach adopted by UK courts in similar cases and would avoid issues arising concerning listed shares and the adverse effects on listed markets. It would also align with the approach taken in many jurisdictions (including EU jurisdictions): although the consequences of non-compliance in many jurisdictions are described as invalidity, they are in practice voidability.
20. In addition, it is not clear that criminal sanctions for non-compliance are necessary or proportionate. Although the government has confirmed that criminal prosecutions will generally only be considered in the most serious of matters, it is unlikely that removing the potential for criminal liability would impede the effectiveness of the regime or increase the risk to national security, and it could reduce over-reporting.

### ***Provide guidance on the regime's role within wider UK economic security policy***

21. We note that the NSI regime is not the only tool the UK possesses to protect national and economic security. The Trade Strategy sets out the intention to seek new powers to respond to unfair trade practices and unfair economic pressure.<sup>9</sup> Meanwhile the UK-US Economic

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<sup>7</sup> These are examples which the government may want to consider and industry would be open to consulting on other options which achieve the objective of increasing the speed of the process.

<sup>8</sup> <https://foreigninvestment.gov.au/investing-in-australia/foreign-investment-framework>

<sup>9</sup> <https://www.gov.uk/government/publications/uk-trade-strategy/the-uks-trade-strategy#preparing-and-strengthening-trade-defence>

Prosperity Deal sets out both countries' intention to cooperate on investment security measures.<sup>10</sup>

22. Industry understands that in the current climate there are growing risks which government must address. We would welcome further dialogue between government and industry to provide clarity about the various strands of UK policy in this area, so they do not unnecessarily deter from the signal to legitimate international investors that the UK is open for business.

**TheCityUK**  
**October 2025**

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<sup>10</sup> <https://www.gov.uk/government/publications/us-uk-economic-prosperity-deal-epd/general-terms-for-the-united-states-of-america-and-the-united-kingdom-of-great-britain-and-northern-ireland-economic-prosperity-deal-web-accessible-v#strengthening-alignment-and-collaboration-on-economic-security>