

MACFARLANES

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Government publishes third annual report on how the UK's national security regime is working

The Government has published its third annual report on how the UK's new national security screening regime is operating. The report covers the period from 1 April 2023 to 31 March 2024 and is the second report to cover an entire year.

By way of reminder, under the regime, the UK Government, acting through its Investment Security Unit, has the power to call in certain kinds of investment and acquisition for review if it perceives a risk to the UK's national security. For certain transactions in certain sectors, notification is mandatory.

Following review, the Government can clear an acquisition by issuing a final notification, or alternatively impose conditions on, or block or unwind an acquisition by issuing a final order.

The report shows a slight increase in notifications since the previous period (906, up from 866), but activity was at a broadly similar level.

However, it appears to be taking the Government longer to process notifications. Average waiting times in the previous period were 4 working days for an acceptance and 7-10 working days for a rejection. These have now increased to 6-8 working days and 13-15 working days respectively, making timely notification all the more important.

In total, 41 acquisitions were called in for review, which is lower than the previous period both in absolute terms (65 in the previous period) and as a percentage of total notifications. It is worth noting that the Government called in 4 acquisitions that had not been notified at all.

Despite the 41 call-ins, the Government issued only 5 final orders, and it did not block or unwind any acquisitions at all, demonstrating a willingness to balance national security with inward investment.

The defence sector continues to be the area of most focus, accounting for the most notifications (48%), the most call-ins (34%) and the most final orders (4). In a similar vein, the military and dual-use sector came under scrutiny, accounting for 17% of notifications, 29% of call-ins and 2 final orders.

Critical supplies to government accounted for 19% of notifications but did not result in an appreciable number of call-ins. Advanced materials, a sector covering an array of businesses, attracted around 14% of notifications but around 24% of call-ins.

Interestingly, the communications and academic research and education sectors accounted for only around 8% and 2% of notifications respectively, but each accounted for around 24% of call-ins, with the communication sector ultimately seeing 2 final orders.

Call-ins most frequently involved acquirers associated with China (41%), the UK (39%) and the USA (22%), which broadly mirrors the previous reporting period.

However, although Chinese acquirers faced the most scrutiny, no final orders were imposed on Chinese buyers. Instead, the final orders involved 2 acquirers from the UK, 2 acquirers from the USA, and 1 each from Canada, France and the UAE.

[Read the PDF version of the Government's third annual report on the UK's national security and investment regime](#)

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