

Founder Focus: FAQs for Start-Up Success

National Security Screening for UK Start-ups

The National Security and Investment Act 2021 (the **NSIA**) is the UK's investment screening regime. An awareness of the NSIA is important for start-ups and other smaller businesses looking for investment, in particular where they are active in one of the (currently) identified 17 sensitive sectors.

Importantly, there is no minimum transaction value or company size threshold. This means even early-stage investments or acquisitions of UK start-ups can fall within the NSIA's scope if they meet certain criteria.

When does it apply?

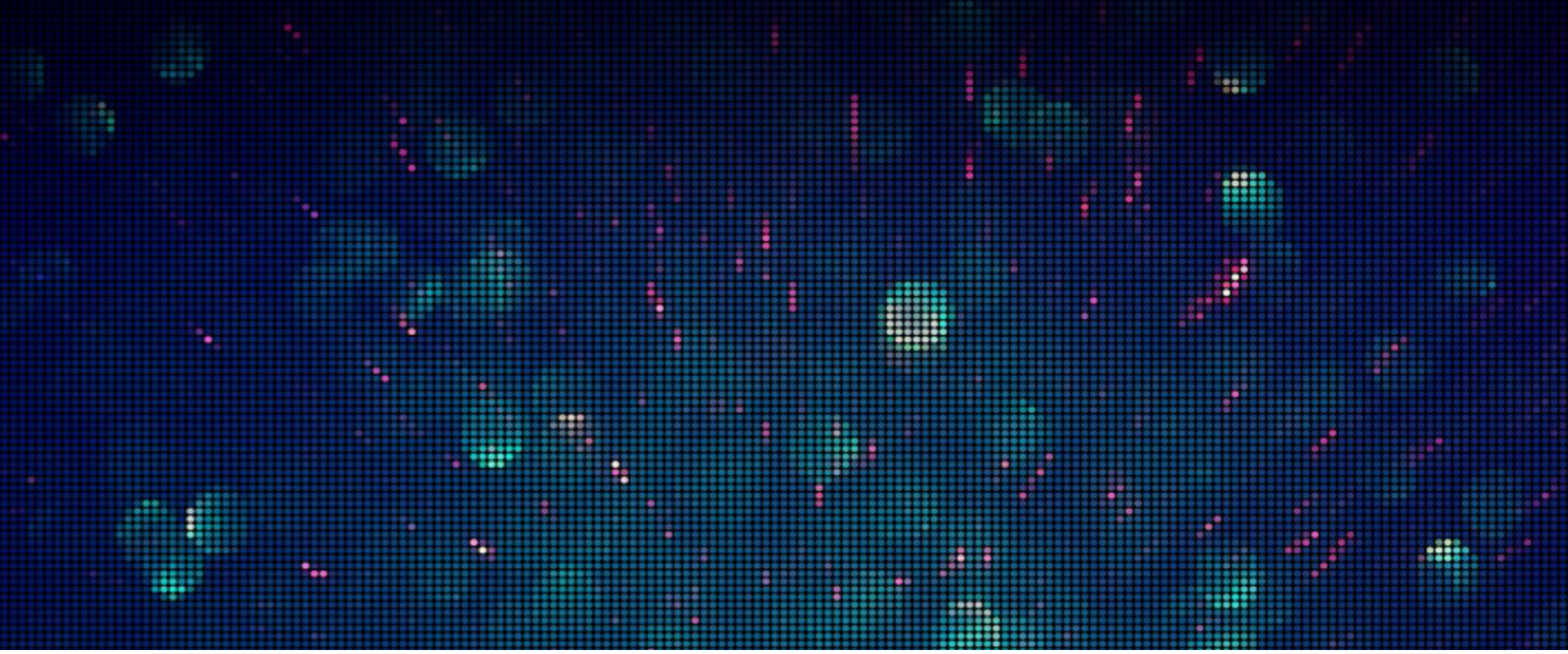
The NSIA gives the UK Government extensive authority to scrutinise, intervene in, and ultimately block, investments on national security grounds. Qualifying acquisitions concern the acquisition of control over any legal entity or asset in the UK, or which has a connection to the UK.

Investments will be subject to the regime where they amount to a "trigger event". For corporate deals, the regime sets specific ownership and voting thresholds that, if crossed, constitute a trigger event:

- acquiring more than 25% of a company's shares or voting rights (crossing above 25% ownership);
- an acquisition crossing above 50% or 75% of shares/votes (gaining majority or super-majority control);






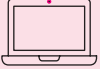











- gaining voting rights that allow the acquirer to block or pass corporate resolutions (even without exceeding those share percentages); or
- gaining "material influence" over the target's policy (a less-defined concept akin to the ability to significantly influence a company's direction, potentially even with a smaller stake, depending on circumstances).

For asset transactions, a trigger event can include acquiring control of intellectual property, technology, or land with a UK nexus (for example, buying or licensing technology/IP that is used in the UK). Start-ups should recognize that selling or licensing key assets (e.g. a critical algorithm, software source code, or sensitive data sets) to a foreign firm might also be caught by the NSIA if the asset could be important to national security.



When is notification and clearance mandatory?

Certain qualifying acquisitions must be notified to the UK Government for regulatory clearance. These are corporate deals: (i) where the level of control being acquired in the legal entity constitutes a trigger event (other than the lower material influence threshold); and (ii) where the entity carries on activities in any of 17 specified sensitive sectors. These sectors are considered more likely to raise national security concerns and include a range of advanced technologies and critical infrastructure areas. The 17 notifiable sectors (defined in regulations) are:

 Advanced material	 Advanced robotic	 Artificial intelligence (AI)
 Civil nuclear	 Communications	 Computing hardware
 Critical suppliers to government	 Cryptographic authentication	 Data infrastructure
 Defence	 Energy	 Military and Dual-use
 Quantum technologies	 Satellite and space technologies	 Suppliers to the emergency services
 Synthetic biology	 Transport	

These “notifiable acquisitions” are subject to mandatory notification to the Cabinet Office’s Investment Security Unit (**ISU**).

So, for example, a foreign venture capital fund acquiring 30% of a UK AI or robotics start-up would need to notify and get approval before closing the investment. Similarly, a large company’s acquisition of a small cybersecurity or data infrastructure start-up would trigger a mandatory NSIA filing and review, regardless of the deal value.

Failure to make a mandatory filing carries potentially significant consequences. It renders a transaction void and risks a penalty of the higher of 5% of the acquirer group’s worldwide turnover or £10 million, and individuals in the most serious cases can face criminal sanctions, including imprisonment for up to 5 years.

Upon a mandatory notification, the ISU typically takes up to 30 working days for an initial review once a complete notification is accepted, with a possible longer “Phase 2” assessment (an additional 30-45+ working days) if a detailed national security review is needed. Start-ups should anticipate this timeline in their deal planning – the transaction cannot close until clearance is granted. Most notifications are cleared at the initial review stage; only a small percentage (single-digit percentage of notifications) are “called-in” for full security assessment.

Call-in and review powers

For qualifying acquisitions not requiring mandatory notification, the UK Government (ISU) retains broad call-in powers. It can use these to call-in and review qualifying acquisitions in any sector that it suspects may give rise to national security concerns.

Key aspects of the call-in power important to start-ups and their investors:

- **5-year window:** The UK Government can intervene in a deal up to 5 years after completion (this is reduced to six months if it becomes aware of the deal), meaning that acquisitions can be retrospectively “called in” for review and potentially unwound or subjected to conditions if a risk is identified.

- **Consider voluntary notifications:** Parties may choose to submit a voluntary notification to obtain clearance. This is often done when the start-up's technology or partnerships might have security sensitivities (even if not squarely within the 17 mandatory sectors), thereby reducing the risk of a future call-in that could disrupt the business or transaction.
- **Foreign vs. domestic investors:** The NSIA is "acquirer-agnostic" – it applies regardless of the nationality of the investor. However, UK Government guidance indicates some acquirers may face higher scrutiny based on ties to hostile states or track record. Start-ups courting foreign investment (especially from countries with strained UK relations or state-linked investors) should be particularly mindful of the NSIA.

In practice, most start-up investments will not be called in unless they involve sensitive technology, critical infrastructure, or investors viewed as high-risk. Out of hundreds of deals notified annually under the NSIA, only a small fraction are subjected to an in-depth security review, and even fewer result in blocking or remedies.

NSIA cases involving start-ups

The ISU has investigated transactions involving investments in start-ups, providing an indication as to how start-ups and their investors should be navigating the NSIA regime.

- **Agile Analog Ltd:** Agile Analog is a Cambridge-based start-up providing analog IP solutions and subsystems. In December 2025, the ISU published its final order in respect of a majority investment by Delin Ventures Ltd., a Jersey-based venture capital company known for investing in early-stage technology and life science businesses. The ISU had concerns around increased foreign control over a microelectronics supplier presenting risks to UK technology supply chains or sensitive intellectual property. The acquisition was conditionally cleared, requiring compliance with corporate governance obligations in respect of the investment including notification requirements to the UK Government should any assets or IP be transferred to Delin.

- **Upp Corporation Ltd:** Upp Corporation was a start-up providing broadband services. In December 2022, it was acquired by an investor whose ultimate owners included sanctioned Russian individuals deemed to pose a national security risk to UK telecommunications infrastructure. The investor was required fully to divest Upp and, prior to the sale, to complete a security audit of the network. The forced divestment was contested, arguing that it was a disproportionate interference with property rights. However, the High Court and Court of Appeal upheld the divestment order, ruling in 2025 that the divestment was lawful and no compensation was required.

Takeaways

It is important that start-ups and their investors have a good understanding as to when the NSIA regime will apply. Where it is relevant, it needs to be factored into any strategy for investment and growth of the business. Failure to factor it in can have potentially serious implications for deal planning and growth strategies.

For more information, or to discuss the potential application of the NSIA regime, please reach out to Graeme Young or your usual CMS contact.

Any questions? Get in touch with the legal team



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