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## Use of Company Chops in China

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Sept. 24 – One of the necessities for doing business in China is the use of an official company seal or chop. This device is used by administration and management to legally authorize documentation. Depending on the business scope, a company may hold any number of chops, all for a different purpose and used on different types of official documentation.

Here we look at some of the most commonly used chops.

### Company chop

The company chop contains the registered name of the company and the seal must be approved by the Public Security Bureau. An important incorporation procedure, a foreign-invested enterprise must produce this chop once the company has been registered with the Administration of Industry and Commerce. This chop is required when any important document is signed and the chop can provide legal authority when opening a bank account or altering the name or business scope of the company.

### Financial chop

The financial chop is used for issuing checks and other finance-related paperwork. Banks require companies to provide their financial chop for filing when opening an account and such filings will be needed for authentication during future transactions. Companies will often keep their financial and company chops separate.

### Contract chop

Many companies will use a separate contract chop when signing contracts with their employees. While having a contract chop is not a statutory requirement, when used for contracts, it has the equivalent legal affect as the company chop.

### Customs chop

The customs chop is used for customs declarations on import and export goods.

### Invoice chop

The invoice chop is used for issuing official tax receipts.

### Other chops

On occasion, a Chinese government department may require a document chopped with the company seal of the foreign investor's parent company. This can create complexities as the use of seals by many smaller corporations is not mandatory and is not part of the typical administration process. However, in order to satisfy the Chinese requirements, a seal may be procured. Note though that it should be countersigned by a recognized person on the board of the parent company. The Chinese side will normally specify whose signature should accompany the document and seal, as it can vary depending on the paperwork required.

For determining the legal usage of chops and seals by a U.S. or E.U. corporation, advice should be sought from in-house counsel in that jurisdiction over any specific domestic legal issues in doing so. The Chinese, in requesting seals and chopped documents are merely imposing their own domestic administration rules to foreign companies without necessarily appreciating that foreign investors are not governed by the same administration rules as China.

### Securing company chops

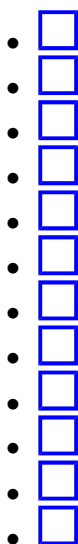
The company chops may not all be needed to be held by one person, in fact in many cases

different chops are used by different departments (ie the financial chop is used by the company accountant while the contractual chop may be held by the in-house lawyer). It can also be mandated that on all occasions, they need to be accompanied by the company chop. Chops are also usually accompanied by the authorized signatory and are generally not used on their own. In effect, this provides an additional layer of security over and above that used in the West, which tends to rely on signature alone.

Regardless, it is a sensible idea only to have chop possession in the hands of trusted individuals who require them as part of their job, and it is a very bad idea for one person to hold them all and be signatory for all of them, unless of course you are the company owner. Company chops are valuable and should be kept under lock and key.

*For more information or advice on company administration, statutory compliance issues and China's regulatory environment, please contact [Dezan Shira & Associates](mailto:info@dezshira.com) at [info@dezshira.com](mailto:info@dezshira.com).*

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