

## 5.1. Chop Functions and Chop Management (RC)

### Introduction

In the western business world (at least in the German one), declarations of intent of a company is usually given by the signature of authorized personnel, e.g. the Managing Director or officers with statutory authority who have been named and sometimes even registered by the company.

In China these declarations of intent are given by the relevant chops which show that a document is issued in the name of a company, not in the name of a single person.

### Types of Chops

While the type of chop might vary depending on the company type, these chops can be found regularly:

- Legal Representative Chop: This chop substitutes the signature of the legal representative and is the “highest” ranking chop
- Company Chop: For declarations of intent proving that the document has been issued with an authorization of the company, not by a single person
- Contract Chop: Usually used for signing contracts in the name of the company
- Finance Chop: For official finance documents, e.g. banking documents
- Personnel Chops: Are created and registered for specific people
- Invoice Chop: For chopping the Chinese invoices, so called “Fapiao”. It includes the tax number of the company.

While different chops exist, they sometimes have to be used in combination to make a document legally valid.

### Risk Management

Due to the fact that a chop substitutes the signature of authorized personnel, the person who controls the chops can sign contracts or make other binding declarations in the name of the company: This fact should never be

underestimated.

For example could the person in control of the jobs increase their own salary, sell the company or bring other substantial damage to the company. Even while – depending on the internal rules and regulations – the company could go to court to get compensation for unauthorized use, the documents are still legally binding.

To manage the corresponding risks, the following measures are highly recommended:

- Define a clear and binding regulation in which cases chops can be used and what the consequence is of unauthorized usage
- Be sure that the documents that get chopped are checked by a second person.
- Make sure that chop usage is followed the 4-eye principle and their usage is clearly documented including applicant, business/contract partner, the types of documents that were chopped and contract value (if applicable)
- Since for some critical business transactions several chops are required, consider physically separating them and giving the responsibility to several departments which are not hierarchically dependent on each other. This is especially true for Company Chop and Legal Representative Chop.
- As a best practice, chop application should at least in small to medium-sized companies be signed by the applicant, department head and general manager. Larger organizations could rely on the legal department, if existing.
- Chops should never be changed or even be destroyed without the official procedure. Chops substitute signatures in the Chinese business world, therefore you can cripple your business operations since most likely a replacement chop will not be accepted by the bank or authorities without registration procedures.
- It seems that an increasing number of smaller MNC name legal representatives who resides outside of China while a General Manager is responsible for the

daily business operations. While the physical absence of this representative can be managed by using the corresponding chop instead of their signature, it must be ensured that control is not lost. Therefore it is recommended not to give the General Manager direct control of the Legal Representative Chop without approval and/or specific guidelines about the usage of the chop.

### **Implications for (international) businesses**

Due to the deep integration in the Chinese business environment, chops play a very important role that cannot be ignored by international businesses:

Documents that are not chopped with the correct chop have a high risk of being rejected by the responsible counterpart, even if it comes from a foreign company.

If you are in an international business and need to sign contracts or other documents with your Headquarter in another country, make sure that these documents are chopped with a chop of the Headquarters too. While this fulfills the requirement for the Chinese authorities, it might not be legally sufficient for your own home country. As a rule of thumb, make sure that the document is legally binding in China and your own country by chopping and signing it.

Traditionally, the color with which documents are chopped is red: To avoid any complications of acceptance, make sure that red color is used for your own chops as well as for the chops of related companies.

Furthermore, often authorities or banks are not used to decipher western signatures. When signing Specimen-Cards with a western signature, even small deviations might be doubted and applications might be rejected by the counterpart. Instead of using western signatures, it could be considered to get a personnel chop and get it registered instead of the signature.

Due to the (probably) massive amount of chop usage and the required applications, it is

recommended to define times in which the applications will be signed by the relevant management and also timeframes in which the chops can be used. This is especially true if the chop management is only a part of the job of an department, otherwise the amount of interruptions due to chop applications might bind a lot more resources than you planned.

### **Best practices**

If there are not special requirements in place, e.g. for bank vouchers, it is recommended to get the documents signed by an authorized person and additionally chop them.

When chopping the document, it should never be chopped in an "empty" place but always above some written text in behind to reduce the risk that the chop can be duplicated for a different transaction.

When chopping documents with multiple pages, it is common practice to fan the documents out so that – additional to the chop at the signature place – all of the pages will get a part of the chop. With this it can be prevented that single pages get changed.