and must promptly notify the Regional Director.

## § 256.56 Lease-specific abandonment accounts.

- (a) The Regional Director may authorize the lessee or guarantor to supplement its bond(s) by establishing a lease(s)-specific abandonment account in one or more federally insured accounts made payable upon demand to the Regional Director. The total security, including the lease-specific abandonment account(s), shall not be less than the amount required to meet outstanding underpayments of royalty and lessee's end-of-lease abandonment and clearance obligations.
- (b) Any interest paid on an abandonment account shall be retained in the account unless the Regional Director approves the payment of the interest to the lessee or guarantor.
- (c) When authorized by the Regional Director, U.S. Treasury obligations may be substituted for payments into an abandonment account.
- (d) An individual abandonment account shall not contain more than \$100,000 or the maximum insurable amount as determined by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.
- (e) The Regional Director may require the lessee to make an overriding royalty or production payment into an escrow account. The required overriding royalty or payment out of production may be associated with production from a lease(s) other than the lease(s) bonded through the escrow account.

## § 256.57 Third-party guarantee.

- (a) The Regional Director may accept a third party's written guarantee as surety for a lessee's lease obligations, following a review of:
- (1) The period of time that the guarantor has been in continuous operation as a business entity;
- (i) Continuous operation is the time that business was conducted immediately preceding the posting of a guarantee.
- (ii) Continuous operation excludes periods of interruption in operations that were beyond the guarantor's control and that do not affect the guarantor's likelihood of remaining in business during lease exploration, development, production, abandonment, and clearance operations.
- (2) Financial information available in the public record or submitted by the guarantor, on its own initiative, in sufficient detail to show to the Regional Director's satisfaction that the guarantor is qualified based on:

- (i) The guarantor's current rating for its most recent bond issuance by either Moody's Investor Service or Standard and Poor's Corporation;
- (ii) The guarantor's net worth taking into account liabilities under this and other guarantees.
- (iii) The guarantor's ratio of current assets to current liabilities taking into account liabilities under this and other guarantees; and
- (iv) The guarantor's unencumbered fixed assets in the United States.
- (3) When the information required by paragraph (2) is not publicly available, the guarantor may submit the information voluntarily. If this is done, the guarantor must update the information annually within 90 days of the end of the fiscal year or as otherwise approved by the Regional Director. The information should include:
- (i) Financial statements for the most recently completed fiscal year accompanied by a report prepared by an independent certified public accountant in conformance with generally accepted accounting principles and containing the accountant's audit opinion or review opinion of the financial statements, with no adverse opinion;
- (ii) Financial statements, certified to be correct by the guarantor's financial officer, for completed quarters in the current fiscal year; and
- (iii) Additional information, certified to be correct by the guarantor's financial officer, as requested by the Regional Director.
- (b) The terms of a third-party guarantee shall provide for the following:
- (1) If the lessee fails to comply with any governing lease term, the guarantor shall take corrective actions or be liable under the indemnity agreement to provide funds to the Regional Director sufficient to complete the required corrective action.
- (2) If the guarantor wishes to terminate the period of liability under a third-party guarantee it must:
- (i) Notify the Regional Director and the lessee at least 90 days before the proposed termination date; and
- (ii) Obtain the Regional Director's approval for the termination of the period of liability for all or a specified portion of its guarantee.
- (3) The lessee must obtain a suitable replacement security instrument before the proposed termination date or if no activities have taken place on the lease(s) for which the guarantee was approved, before any activities take place.
- (c) The total amount of all outstanding and proposed guarantees by the guarantor must not exceed 25 percent of

that guarantor's unencumbered net worth in the United States.

- (d) If the Regional Director approves a third-party guarantee, the guarantor must submit an indemnity agreement.
- (1) The indemnity agreement shall be executed by all persons and parties who are to be bound by it, including the guarantor, and shall bind each jointly and severally.
- (2) Two corporate officers who are authorized to bind their corporation must sign the indemnity agreement.
- (3) The guarantor must provide the Regional Director copies of:
- (i) The authorization of the signatory officials to bind the corporation;
- (ii) An affidavit certifying that the agreement is valid under all applicable laws; and
- (iii) The corporate authorization, demonstrating that the corporation can guarantee the obligation and execute the indemnity agreement.
- (4) if the third-party guarantor is a partnership, joint venture, or syndicate, the agreement shall:
- (i) Bind each partner or party who has a beneficial interest, directly or indirectly, in the guarantor; and
- (ii) Provide that, if the third-party guarantee is forfeited, each partner or party shall be jointly and severally liable for compliance with all terms and conditions of the lease(s).
- (5) Pursuant to § 256.59 of this chapter, the guarantor shall bring the lease into compliance or pay the Regional Director the amount necessary to bring the lease into compliance. The indemnity agreement, upon default by the lessee or operator, shall operate as a judgment against those parties liable under the indemnity agreement.
- (e) If during the life a third-party guarantee the guarantor no longer meets the criteria of paragraphs (a)(3) and (c) of this section, the lessee must:
- (i) Notify the Regional Director immediately: and
- (ii) Bring the lease into compliance with the requirements of this subpart within 90 days.

## § 256.58 Termination of the period of liability and cancellation of a bond.

- (a) The Regional Director shall terminate the period of liability under a bond upon the request of the surety and demand a replacement bond of equivalent amount from the lessee. The termination of the period of liability under a bond does not constitute release of the bond. The surety continues to be responsible for all obligations and liabilities accruing before the effective date of the termination of the period of liability.
- (b) The Regional Director will cancel or release a bond as to obligations that