

accrued before the cancellation only upon:

(1) Being furnished a replacement bond in which the surety agrees to assume all outstanding liabilities under the bond to be cancelled, in an amount equal to or greater than the amount of the bond to be cancelled; or

(2) The determination that all outstanding obligations have been fulfilled. Such cancellation shall be by a written instrument that subjects the bond to automatic reinstatement, as if no cancellation had occurred, if at any time within 6 years of such cancellation:

(i) Any payment made by the principal(s) is rescinded or must be restored due to insolvency, bankruptcy, reorganization, or receivership; or

(ii) The principal's representation to MMS that it has paid its financial obligations or performed the other obligations of the lease in accordance with MMS specifications is materially false at the time of cancellation.

(c) Failure of the lessee to replace a deficient bond could result in penalties under subpart N of part 250 of this Title or suspension of production or other operations in accordance with § 250.10.

§ 256.59 Forfeiture of bonds and/or other securities.

(a) If a lessee refuses or is unable to comply with lease terms or defaults on the conditions under which a bond, third-party guarantee, and/or other form of security was accepted, the Regional Director shall:

(1) Notify in writing the lessee, third-party guarantor, and any surety on the bond or other form of guarantee of the determination to call or forfeit all or part of the bond or guarantee, the reasons for the forfeiture, and the amount to be forfeited. The amount shall be based on the estimated total cost of correcting the lessee's noncompliance or default.

(2) Advise the lessee, third-party guarantor, and any surety that they can avoid forfeiture by:

(i) Agreeing to correct the noncompliance or default and demonstrating that they have the ability to do so; or

(ii) Agreeing that the surety will complete actions required for compliance in accordance with a schedule that meets the conditions of the lease and governing regulations if the surety can demonstrate the ability to carry out the action required.

(b) If there is a default, the Regional Director may cause the forfeiture of any and all bonds or other security deposited on condition of compliance with all the terms and conditions of the lease or leases.

(c) If forfeiture of the bond or security is required by this section, the Regional Director shall:

(1) Collect the forfeited amount, and

(2) Use funds collected from bond or security forfeiture to correct the noncompliance or default.

(d) If the amount forfeited is insufficient to pay for the full cost of corrective actions:

(1) the lessee(s) and any third-party guarantor(s) are jointly and severally liable for the remaining costs of obtaining full compliance with the terms and conditions of the lease, and

(2) The Regional Director may take or authorize required corrective action to obtain full compliance and may recover from the lessee(s) and any third-party guarantor(s) all costs in excess of the amount forfeited.

(3) If the amount of bond or security forfeited exceeds the total costs of the corrective actions required to obtain compliance, the Regional Director shall return the excess amount to the party from whom it was collected.

12. In § 256.62, paragraphs (a), (d), and (e) are revised, and paragraph (f) is added to read as follows:

§ 256.62 Assignment of leases or interests therein.

(a) Subject to the approval of the Regional Director and the furnishing of bond coverage pursuant to the requirements of subpart I of this part, leases, or any undivided interests therein, may be assigned in whole, or as to any officially designated subdivision, to anyone qualified under § 256.35(b) of this part to hold a lease.

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(d) The assignor is liable for all obligations under the lease accruing before the approval of the lease assignment. Approval of the assignment by the Regional Director does not relieve the assignor of accrued lease obligations which the assignee subsequently fails to perform.

(e) After the Regional Director approves a lease assignment, the assignee is liable for all obligations under the lease and must comply with all regulations issued under the Act. The assignee must remedy all existing environmental problems on the tract, properly abandon all wells, and reclaim the lease site in accordance with part 250, subpart G. Before MMS approves an assignment, the assignee must submit acceptable bond coverage as required by §§ 256.52 and 256.53 of this part.

(f) Where there is more than one lessee, the lessees are jointly and severally responsible for performing the obligations of the lease, unless provided otherwise in these regulations. The

Regional Director will look to the designated operator to perform lessee obligations under any lease and under any regulations in this chapter. Should the operator fail or be unable to perform any obligation of the lessee(s), the Regional Director will require any or all the lessee(s) to bring the lease into compliance. If there is no lessee able to perform, the Regional Director will require prior lessees to bring the lease into compliance to the extent that the obligation accrued before assignment.

13. In § 256.64, paragraphs (a)(1), (c), and (g) are revised to read as follows:

§ 256.64 Requirements for filing transfers.

(a) All instruments of transfer of a lease or of an interest therein as to any officially designated subdivision, including operating rights, subleases and record title interests, shall be submitted in duplicate to the Regional Director for approval within 90 days from the date of final execution. Instruments of transfer shall include a statement over the transferee's own signature with respect to citizenship and qualifications similar to that required of a lessee and shall contain all of the terms and conditions agreed upon by the parties thereto.

(1) Neither the transfer of operating rights or creation of a sublease(s) releases the lessee from any obligation under the lease or regulations.

(2) The assignment of record title interests does not release the lessee from any accrued obligation under any lease or regulations.

(3) Carried working interests, overriding royalty interests, or payments out of production may be created or transferred without filing an approval.

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(c) Where an assignment is of all the lease title interest in a lease or creates a segregated lease, the assignee must furnish a bond in the amount prescribed in §§ 256.52 and 256.53 of this part. Where an assignment is of less than all the lease title and the assignment does not create separate leases, the assignee, if the assignment provides and the surety consents, may become a joint principal on the bond with the assignor.

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(g) Each obligation under any lease and under the regulations in this part binds the heirs, executors, administrators, successors, and assignees of the lessee. Except as otherwise provided in the regulations in this chapter, the lessee(s) (and to the extent of their interests, sublessees and operating rights owners) are jointly and severally liable for the performance of each obligation under the lease and