

## 61.1 An exercise on capital maintenance

Go to **www.wikipedia.com** and research 'Ponzi scheme'.

### Suggested Elements of a Response

A Ponzi scheme is fraudulent enterprise in which existing investors are rewarded with 'profits' which are in fact paid out of funds from new investors. As long as the fraud continues to expand and attract new investors, few suspicions will be aroused, especially because existing investors will often reinvest their apparent profits, and even invest more of their own funds.

Ponzi schemes are named after Charles Ponzi (1882–1949), author of a famous such scheme in the United States, although similar schemes have a long history. The public limited company, with its shares on sale to the public at large, is a perfect vehicle for this kind of fraud, and laws with respect to capital maintenance in a limited company are in part designed to reduce the incidence and contain the effects of Ponzi-like schemes.