BASEL, Switzerland—Global banking regulators watered down a key element of their plan for creating a safer financial system, giving ground to banks that argued the rules were unworkable and financially risky.

The Basel Committee on Banking Supervision, a group of the world’s top regulators and central bankers, said Sunday that it agreed to relax a rule designed to ensure that big banks are able to weather financial crises without running short of cash. Bowing to two years of intense pressure from the banking industry, the regulators made it easier for banks to meet the rule, known as the "liquidity coverage ratio," and delayed its full implementation until 2019.

It is the latest instance of regulators chipping away at their landmark 2010 response to the global financial crisis. The regulators argue that the changes make banking rules much stronger than they were before the crisis.

The so-called Basel III accord, known for the Swiss city in which it has historically been negotiated, required banks to greatly thicken their capital cushions and come up with trillions of dollars of liquidity. The banking industry argued that the changes were overkill and would prompt them to dramatically reduce lending. Regulators ultimately accepted some of those arguments, and agreed to delay or ease key elements of the rules.

MEANWHILE, questions are mounting in some countries, including the U.S., over whether the package will be implemented at all. It is up to individual countries to decide how to apply the rules to their financial institutions.

Nobody knows for sure whether the rules will strike the right balance between preventing banks from becoming dangerously fragile and providing the industry the flexibility needed to finance economies around the world. Previous iterations of the Basel rules failed to prevent banking crises, partly because they didn’t anticipate the then-obscure corners of the financial system that would cause future problems.

Regulators argue that the new regulations, while weaker than originally envisioned, nonetheless make banking rules much stronger than they were before the crisis.

The liquidity rule requires banks to be holding enough liquid assets—originally limited mostly to cash and government bonds—to be able to withstand an intense 30-day liquidity crisis similar to what occurred in fall 2008. Liquid assets must total 100% of the funds a bank theoretically would lose access to in a crisis.

At the end of 2011, the Basel Committee estimated that fewer than half of the world’s top 200 banks were set to comply with the rule and that they would need to come up with a total of about €1.8 trillion ($2.35 trillion) in highly liquid assets to satisfy the ratio when it took effect in 2015.

Sunday’s announcement dramatically eases that burden. Mervyn King, the Bank of England governor who has
led the negotiations, said at a news conference Sunday that "the vast majority" of those 200 banks already comply with the relaxed standards, although that is partly because of the extraordinary efforts to make funds available many central banks have made to ease the lingering financial crisis.

Mr. King disputed that the revisions to the liquidity rule amounted to it being watered down. "It's in the eye of the beholder as to whether these [changes] are material or not," he said. "Clearly one of the aims of this was to listen to the comments that people had made." He added: "Nobody set out to make it stronger or weaker, but to make it more realistic."

Stefan Ingves, the Swedish central banker who chairs the Basel group, described the liquidity rule as "quite an achievement and something that will be very, very helpful when it comes to ensuring global financial stability."

The biggest changes to the rule involve what banks are allowed to count as "high-quality liquid assets." The Basel Committee in 2010 drafted the rule narrowly, including government bonds, cash parked at central banks, and little else. The banking industry campaigned for a more diverse array of assets to count—everything from blue-chip stocks to mortgage-backed bonds to stashes of gold.

Regulators initially scoffed at the industry's arguments as reflecting banks' eagerness to return to their reckless precrisis ways. But the European debt crisis, which has seen some governments' bonds become junk-rated and illiquid, helped prompt a reassessment, according to people involved in the negotiations.

Ultimately, the negotiators agreed to let banks use less-traditional assets to satisfy up to 15% of their requirements under the rule. Those include highly-rated residential mortgage-backed securities, a priority for the U.S. banking industry. U.S. lenders are sitting on trillions of dollars of such assets, which played a central role in the 2008 U.S. banking crisis. The value of those securities will be discounted by 25% when their contribution to banks' liquidity totals is calculated.

In another concession to the industry, the Basel negotiators changed their assumptions regarding the severity of the crises banks realistically might face, and will have to be able to withstand under the new rule.

For example, the original rule stated that banks needed to assume that, in a theoretical 30-day crisis, they would see 5% of their retail deposits vanish. The banking industry argued that was unrealistically harsh. Sunday's rule lowers the level to 3%. And instead of assuming that corporate clients would draw down their credit lines by 100% in a crisis, the figure has been changed to 30%, a shift that significantly lowers the amount of liquid assets banks need to have on hand.

In addition, whereas the original rule was supposed to kick in on Jan. 1, 2015, banks now will only have to be partly in compliance by then. From that point, the requirement will be gradually phased in over the next four years.

A key question is the fate of another liquidity rule, known as the "net stable funding ratio," that was part of the original Basel III proposal but has since been in a state of limbo. The banking industry views that rule, intended to keep banks from relying too heavily on short-term borrowing to fund long-term loans, as more onerous and ill-conceived than the liquidity coverage ratio. Some executives say they think it ultimately will be left on the cutting-room floor.

But Mr. King on Sunday shot down that notion. He said the Basel Committee plans to soon turn its attention to the net stable funding ratio, describing it as an "absolutely crucial" part of ensuring financial stability.

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